AnnualReport
2012

New Zealand Oil & Gas Ltd

Contents

Signed on behalf of the Board of New Zealand Oil & Gas Limited on 12 September 2012.

A R Radford
Chairman

PG Foley
Director

Chairman's Review

During the year ended 30 June 2012 NZOG again enjoyed strong performance from its two producing oil and gas fields. The company remained in a very sound financial position throughout the year.

Financial Result

The company posted a net profit after tax of NZ$19.9m for the financial year to 30 June 2012; a pleasing turn around. At financial year-end NZOG had a cash balance of $209.2 million with a net cash position of $162.4 million.

Dividend

Directors declared a fully imputed dividend for the year of 6 cents per ordinary share. The company's dividend re-investment plan remains in place, providing shareholders the opportunity to take shares instead of cash.

Company Operations

The Kupe and Tui projects combined provided the company with NZ$116.4 million in revenues for the financial year. More to the point, the contribution to operating profits was NZ$52.3 million*.

Of these two projects, Kupe was again the main contributor providing profits of $31.9 million*. Its status as a core long-term earnings base for the company was further enhanced in July 2012 with a 13.4% increase in the proved and probable (2P) reserves for gas and oil in the field.

The Tui project generally performed to expectation producing on average 6,000 bopd and contributing operating profits of $20.4 million*. The operator refined its signalled reduction of the estimated proved and probable (2P) reserves in the Tui fields to 41 mmbbls. The resultant production profile would take field life to 2019. However, there is potential, currently being assessed, to add to reserves through additional drilling at Pateke and/or by drilling at least one untested prospect within the permit area.

Taranaki remains the New Zealand focus on the exploration front. A number of prospects exist within the NZOG portfolio and we are developing the portfolio into a set of complementary opportunities with an appropriate risk and reward balance.

Our Kakapo permit remains an exciting prospect and work on drilling options continues. The permit lies between the Kupe and Maari fields and the proposed well will penetrate a stacked series of Miocene sands. There is potential for a sizeable discovery.

New Zealand activities still form the core of NZOG's operations, which have been supplemented with additional interests acquired during the year in Tunisia and Indonesia (onshore Sumatra).

Board and Management

During the year there were a number of changes to NZOG's executive management, the most key of these being the appointment of Andrew Knight as the company's new CEO in December 2011. Andrew had been on the board as a non-executive since January 2008.

At Board level, Mr Steve Rawson retired to concentrate on his other activities. In February 2012, Mr Mark Tume and Mr Rodger Finlay were appointed as directors and bring added breadth and experience to the board as a whole.

Looking ahead I have decided to relinquish the role of Chairman of the Board of NZOG. Mr Peter Griffiths, who joined the board in December 2009, will become Chairman at the end of October 2012.

Outlook

NZOG is the only significant New Zealand-headquartered and listed exploration and production oil company. It is a financially stable company, which continues to generate profits from the Tui and Kupe fields. In addition to these production assets, both of which were discovered through exploration by NZOG and its partners, the company has a range of exploration assets which have potential to deliver further rewards to investors.

NZOG also continues to hold a substantial amount of cash reserves, with the associated challenge to meet investor expectations for these funds to create returns commensurate with the company's risk profile.

Tony Radford
Chairman

* Gross Operating Profit is consistent with the Segment Result in the Consolidated Financial Statements (Refer to note 3 Segment Information).

CEO's Review

The year ended 30 June 2012 has been one of rebuilding and consolidation. NZOG is generating good cash flows from its interests in the Kupe and Tui fields which are both situated off the Taranaki coast. A cash balance of $209.2 million with a net cash position of $162.4 million and an operating cashflow of $63.2 million show the fundamentals of the company are strong.

NZOG has significantly strengthened its senior management team with the aim of identifying and executing new opportunities. The company has made good progress in diversifying its portfolio of opportunities in New Zealand and has a growing number of opportunities to pursue in Indonesia and Tunisia.

Our objective is to build a suite of opportunities that carry varying degrees of risk, cost exposure and reward. Development of a diversified and sustainable portfolio is progressing, but will take time. NZOG will continue to focus preferentially on New Zealand, but insufficient continuity and impetus means the business cannot be sustained from offshore New Zealand alone. Thus NZOG continues to explore opportunities in Indonesia, Tunisia and onshore New Zealand.

NZOG, like many companies in the sector, is proud of the contribution we make to the health of the economy. This extends beyond thousands of jobs and opportunities for skill development across the sector to a broad contribution to the community and New Zealanders' well-being.

The oil and gas sector has significant untapped potential to contribute further and NZOG is excited about this transformational opportunity for New Zealand.

Production

Operationally it was a solid year, with NZOG's two producing assets, Kupe and Tui, providing more than NZ$100 million in revenue during the financial year.

KUPE (NZOG INTEREST 15%)

The Kupe gas and oil field off the south Taranaki coast continued to underpin NZOG with $74.3 million in revenue for the year. The first quarter set a new production record as Genesis increased its off-take to meet winter electricity demands.

Overall the plant has performed well and reliability has been good. Some issues with the umbilical pipeline that runs from the offshore field to the onshore production station were identified during routine inspection. The umbilical has been stabilised and a long-term solution is being implemented.

NZOG's share of production for the year was 2.86 PJ of sales gas, 12,500 tonnes of LPG and 269,000 barrels of light oil.

Of particular note was a significant increase in the proved and probable (2P) reserves in the Kupe gas and oil field with original 2P reserves (100%) increased by 13.4% to 82.2 million barrels of oil equivalent (mmboe) and are now 25.8% greater than the pre-production estimate.

Remaining reserves are 68.4 mmboe – 276 PJ sales gas, 1.178 million tonnes of LPG and 13.6 million barrels of light oil.

TUI (NZOG INTEREST 12.5%)

The Tui Area Oil Fields in the offshore Taranaki Basin continued to perform in line with expectations producing 2.2 million barrels of oil in the financial year - NZOG's share 276,000 barrels.

NZOG's revenue from Tui for the year was $42.1 million.

Well performance has continued as expected. Feasibility assessment work on accessing additional volumes of oil with new or sidetracked wells into the existing Pateke field, and exploration targets within the licence area, is now at an advanced stage.

Exploration

NEW ZEALAND

As stated above New Zealand remains a strong commitment for NZOG. To that end we continue to review our existing opportunities and look for new opportunities that will grow shareholder wealth.

KAKAPO

In PEP 51311 NZOG has identified the Kakapo prospect. The prospect is a stacked series of Motueka coastal sands, which are laterally truncated and considered to be sealed by deep canyons filled with non-reservoir facies rock types. It is potentially a very significant field - estimates of mean prospective resources are over 200 million barrels of oil equivalent. Seismic modelling has upgraded the chance of success through indications that a small gas cap may lie above the main postulated oil column.

KAHERU

NZOG acquired a 60% interest (conditional on a formal commitment to drill a test well in 2013-2014) in the Kaheru Permit in southern Taranaki, immediately to the south of the Rimu/Kauri oil and gas field complex on the South Taranaki coast. Following the unexpected exit of ROC from the permit NZOG also took over as Operator.

The Kaheru prospect lies in 25 metres of water, and is 8 kms from shore. Figures released from the joint venture previously have estimated the mean recoverable reserves (unrisked) at 45 million barrels (mmbbls) of oil in an oil case; or 200 billion cubic feet (bcf) of gas and 7.5 mmbbls of condensate in a gas case.

NZOG has made rigorous efforts to engage with potential new partners in regard to both Kaheru and Kakapo in order to spread risk and reduce the Company's exposure to a disproportionate share of drilling costs.

BARQUE

NZOG took over as Operator of PEP 38259, the Barque permit in the offshore Canterbury Basin, in January 2012. Despite efforts to find a new partner to share the exposure to the high cost of drilling in this challenging environment some factors couldn't be fully addressed. The joint venture parties relinquished the permit in August.

BLOCKS OFFER

In addition to the above, work is well advanced on assessing prospects in the latest blocks offer which was opened by the Crown in June 2012 with bids closing on 15 October 2012.

The company has an objective of being the partner of choice in New Zealand, and believes that, through the active farm-out processes undertaken and increasingly active role in the sector as a permit operator, NZOG is developing solid relationships with potential partners for the future.

INDONESIA

As part of our strategy to broaden the exploration portfolio and its risk profile, NZOG has made strong progress in building a portfolio of interests in onshore Sumatra, Indonesia.

NZOG established a strategic relationship with Bukit Energy, a new company put together by experienced oil industry professionals with a deep understanding of Indonesia, strong local knowledge, and expertise in both conventional and unconventional activities.

Subsequently NZOG secured a 22.5% interest in the Kisaran permit. The Kisaran block is situated in the northern part of the Central Sumatra Basin, the most prolific oil producing basin in SE Asia, with some 14 billion barrels of oil discovered in over 200 fields. Six prospects within the permit have been identified and assessed. Plans are at an advanced stage to drill two wells in late 2012 and early 2013. One is to appraise an undeveloped 2006 oil discovery within sands of the Pematang Group (deposited in the early, lacustrine stage of basin formation in the mid Tertiary); the other will test a prospect with dual targets in shallow marine sands with good reservoir characteristics up-dip of strong oil indications in the same well.

NZOG and its partners were the successful bidders for the Bohorok Block in the North Sumatra Basin following encouraging results from a Joint Study undertaken by an Indonesian university team. During the next three years 200 sq km of 2D seismic data will be acquired to delineate and evaluate the leads and prospects identified during the pre-bid study more accurately.

The North Sumatra Basin is also an established oil and gas producing basin, with the Bohorok Block at the southern end on the outskirts of the major city, Medan. Most of the fields at this end of the basin (which includes the giant Arun gas field and its pioneering LNG export facilities) are in Miocene sands of the Keutapang, Baong and Belumai formations, in anticlinal and combination traps. Fields in proximity to the Bohorok Block include the 23 mmbbl Telaga Said oil field, the oldest discovery in Indonesia, and the Pantai Pakam Timur gas field, with more than 100 BCF gas.

TUNISIA

Solid progress was also made in expanding the portfolio in Tunisia. As previously reported, Tunisia provides a combination of good prospectivity, established and continuous exploration and production activity, reasonable fiscal terms, and relative ease of doing business.

In 2011 NZOG was granted the Diodore permit in the Gulf of Gabes. The 1,200 sq km permit is surrounded by discovered and producing oil and gas fields which produce from carbonate reservoirs of Eocene and Cretaceous age, along a trend from onshore Tunisia across the Gulf of Gabes and into adjacent Libyan waters.

In February 2012 a 467 km 2D seismic survey was conducted over the Diodore permit. Data from that survey has been processed and is being integrated with existing 3D and 2D seismic data (being reprocessed) to define and evaluate prospects. The integration of regional well data with the extensive seismic survey data is directed at identifying the fairways within which viable reservoir character exists, and within those fairways, quantifying the scale of undrilled structural and stratigraphic closures which might then be drilled and tested. A decision will be made by mid 2013 whether to advance to a Production Sharing Contract which would involve drilling an exploration well during its first four-year term.

NZOG has also secured 40% of the Cosmos concession, located in the Gulf of Hammamet.

The concession contains an offshore oil discovery, Cosmos, which is being assessed for development. The oil reservoirs at Cosmos are marine sands of Miocene age, which have produced oil from a number of fields on trend. Per well production rates are typically in the range of 5,000-10,000 barrels of oil per day. An independent review of field reserves has been undertaken by Netherland Sewell Associates Inc and front-end engineering design studies are ongoing. A final investment decision is expected in the last quarter of 2012 and if positive, the Cosmos field will be developed in 2014.

Consolidation

The last year has been one of consolidation and rebuilding for NZOG. We have established a new commercial and operations team. In February industry veteran John Bay was employed to head this team and he was later joined by Chris McKeown and Michael Wright. The establishment of this team complements our strong geotechnical team led by Dr Mac Beggs. CFO Craig Jones returned to Australia and has been replaced by Andre Gaylard as acting CFO. Public Affairs Manager Chris Roberts took up a senior role with Tourism New Zealand, and we recently welcomed John Pagani as External Relations Manager.

I would like to pay tribute to Tony Radford, who has decided to resign as Chairman. His service to the company began when he founded it in 1981 with a vision for a New Zealand exploration company. As a founding Director, as a former CEO and as Chairman, he has made an immeasurable contribution to building a company with a market cap of around $330 million. The highest compliment we can pay him is to continue to achieve his vision for success of the New Zealand oil and gas sector.

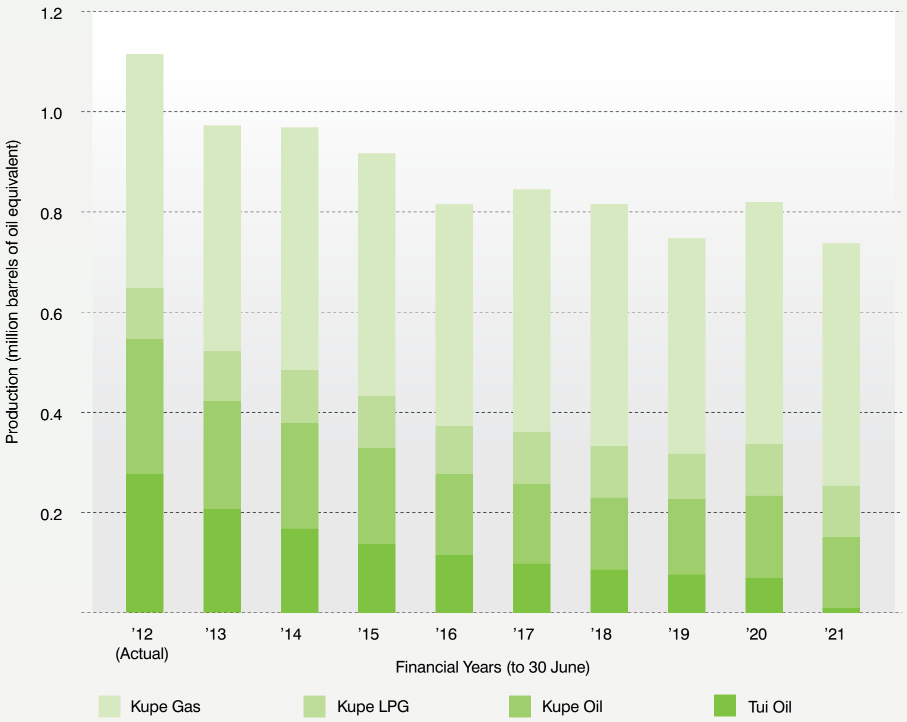
As already stated, NZOG is committed to New Zealand exploration and production. But at the same time, given the long lead times and the challenges caused by our distance from the main centres of industry activity, we continue to take prudent steps to ensure we have a broad, well-balanced portfolio with new growth opportunities.

These developing positions combined with strongly performing producing assets mean NZOG is well placed to deliver on its growth strategy.

Andrew Knight
Chief Executive

Reserves and Production

Production – Actual and Forecast



Source: Production forecasts have been derived from information provided by the Tui and Kupe Operators. Barrels of oil equivalent calculations have been made consistent with Society of Petroleum Engineers (SPE) guidelines.

Reserves

Proven and Probable (2P) Oil & Gas Reserves as at 30 June 2012	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (kilotonnes)	Million Barrels of Oil Equivalent*
Tui	1.0			1.0
Kupe	2.0	41	177	10.2
Total				11.2

*Million barrels of oil equivalent has been calculated as the total oil equivalent of the oil, condensate/light oil, natural gas and LPG figures, using conversion factors consistent with Society of Petroleum Engineers (SPE) guidelines.

Proven reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs, under existing economic and operating conditions. Probable reserves are defined as those which have a 50% chance or better of being technically and economically producible.

Oil and gas reserves are reported as at 30 June 2012, and in accordance with Section 10.11 of the NZX Listing Rules. This Reserves Statement has been compiled by NZOG's Vice President and General Manager Commercial and Operations, John Bay - John is a registered Professional Engineer (Petroleum and Natural Gas Engineering) in Texas - and accurately reflects information supplied by the respective joint venture Operators.

NB: Subsequent to the end of the financial year, the Kupe Operator, Origin Energy issued a reserves review. On 10 July, 2012 the Kupe joint partners announced they had concluded their independent assessments of the operator's reserves assessment and had agreed on revised reserves. The initial 2P reserves were further increased by 13.4%. Added to reserves increase announced in July 2010, Kupe ultimate recoverable 2P reserves are now 25.8% greater than the pre-production estimate.

Consolidated Financial Statements

For the year ended 30 June 2012

DIRECTORS' DECLARATION

In the opinion of the Directors of New Zealand Oil & Gas Limited ("the Company"):

1) The consolidated financial statements and notes set out in the relevant pages of the Annual Report comply with the accounting standards issued by the New Zealand Institute of Chartered Accountants; and

2) The consolidated financial statements for the year to 30 June 2012 and notes to those consolidated financial statements give a true and fair view of the financial position and performance of the Company; and

3) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

A R Radford	**PG Foley**
Chairman	Director
22 August 2012	22 August 2012

New Zealand Oil & Gas Limited

Consolidated Income Statement

For the year ended 30 June 2012

		Group		Parent	
			Restated*		
	Notes	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Revenue	4	**116,375**	106,473	**-**	-
Operating costs	5	**(52,775)**	(55,070)	**-**	-
Gross profit		**63,600**	51,403	**-**	-
Other income	4	**921**	2,430	**66**	783
Exploration and evaluation costs expensed	17	**(2,389)**	(3,434)	**-**	-
Other expenses	6	**(10,005)**	(11,070)	**(10,326)**	(10,445)
Results from operating activities		**52,127**	39,329	**(10,260)**	(9,662)
Finance costs	7	**(19,442)**	(113,325)	**(13,692)**	(105,241)
Finance income	7	**11,791**	10,614	**10,928**	19,322
Net finance income/(costs)	7	**(7,651)**	(102,711)	**(2,764)**	(85,919)
Profit/(loss) before income tax and royalties		**44,476**	(63,382)	**(13,024)**	(95,581)
Royalties expense	8	**(12,102)**	(7,981)	**-**	-
Income tax (expense)/benefit	9	**(12,487)**	(5,128)	**(1,684)**	2,897
Profit/(loss) for the year		**19,887**	(76,491)	**(14,708)**	(92,684)
Profit/(loss) for the year attributable to:					
Equity holders of Parent		**19,887**	(76,491)		
		19,887	(76,491)		

		Cents	Cents
Earnings per share attributable to shareholders:			
Basic earnings per share	26	**5.0**	(19.3)
Diluted earnings per share	26	**5.0**	(19.3)
Net Tangible Asset Backing per share		**89**	86

* See changes in accounting policy - note 2(Z)(i)

The above Consolidated Income Statement should be read with the accompanying notes on pages 13 – 43

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

		Group		Parent	
			Restated*		
	Notes	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Profit/(loss) for the year		**19,887**	(76,491)	**(14,708)**	(92,684)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	25	**(658)**	(150)	**-**	-
Foreign currency translation differences	25	**1,189**	(8,828)	**-**	-
Other comprehensive income for the year		**531**	(8,978)	**-**	-
Total comprehensive income for the year		**20,418**	(85,469)	**(14,708)**	(92,684)
Total comprehensive income for the year:					
Attributable to equity holders of the Parent		**20,418**	(85,469)		

* See changes in accounting policy - note 2(Z)(i)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes on pages 13 – 43

Consolidated Statement of Financial Position

As at 30 June 2012

		Group			Parent	
	Notes	2012 $'000	Restated* 2011 $'000	1 July 2010* $'000	2012 $'000	2011 $'000
ASSETS						
Current assets						
Cash and cash equivalents	11	**209,221**	149,360	142,404	**174,790**	101,880
Receivables and prepayments	12	**20,096**	23,733	20,793	**16,346**	121,673
Inventories	13	**1,340**	869	140	**-**	-
Current tax receivables		**-**	1,980	1,842	**4,750**	665
Convertible Bond	14	**2,499**	35,103	-	**-**	-
Total current assets		**233,156**	211,045	165,179	**195,886**	224,218
Non-current assets						
Convertible Bond	14	**-**	-	39,933	**-**	-
Investment in associates		**-**	-	77,088	**-**	-
Evaluation and exploration assets	17	**14,893**	7,322	6,641	**-**	-
Oil and gas assets	18	**218,537**	238,841	267,624	**-**	-
Property, plant and equipment		**366**	281	336	**321**	281
Intangible assets		**35**	41	166	**35**	41
Net deferred tax asset	23	**-**	-	-	**72**	1,756
Other financial assets	19	**18,052**	15,705	19,687	**57,754**	50,171
Total non-current assets		**251,883**	262,190	411,475	**58,182**	52,249
Total assets		**485,039**	473,235	576,654	**254,068**	276,467
LIABILITIES						
Current liabilities						
Payables	20	**16,959**	15,319	20,797	**1,205**	1,691
Borrowings	21	**18,040**	14,644	3,217	**-**	-
Current tax liabilities		**2,104**	-	-	**-**	-
Total current liabilities		**37,103**	29,963	24,014	**1,205**	1,691
Non-current liabilities						
Borrowings	21	**28,760**	48,680	59,588	**-**	-
Restoration and rehabilitation provision	22	**32,392**	25,645	29,221	**-**	-
Net deferred tax liability	23	**31,773**	27,149	22,082	**-**	-
Total non-current liabilities		**92,925**	101,474	110,891	**-**	-
Total liabilities		**130,028**	131,437	134,905	**1,205**	1,691
Net assets		**355,011**	341,798	441,749	**252,863**	274,776
EQUITY						
Share capital	24	**358,584**	358,233	353,741	**358,584**	358,233
Reserves	25	**(17,243)**	(17,420)	(8,775)	**6,810**	7,164
Retained earnings		**13,670**	985	96,783	**(112,531)**	(90,621)
Total equity		**355,011**	341,798	441,749	**252,863**	274,776

* See changes in accounting policy - note 2(Z)(i)

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 13– 43

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

		Attributable to equity holders of New Zealand Oil & Gas Limited			
GROUP	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2010		**353,741**	(8,697)	**99,166**	444,210
Prior period adjustment *		**-**	(78)	**(2,383)**	(2,461)
Restated balance at 1 July 2010		**353,741**	(8,775)	**96,783**	441,749
Comprehensive income					
Profit/(loss) for the year		**-**	-	**(76,491)**	(76,491)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	25	**-**	(150)	**-**	(150)
Foreign currency translation differences	25	**-**	(8,828)	**-**	(8,828)
Total comprehensive income		**-**	(8,978)	**(76,491)**	(85,469)
Transactions with owners					
Shares issued	24	**7,009**	-	**-**	7,009
Buy back of issued shares	24	**(2,517)**	-	**-**	(2,517)
Share based payment	25	**-**	488	**-**	488
Transfer of expired share based payments during the year	25	**-**	(155)	**155**	-
Dividend paid (5 cents per ordinary share)		**-**	-	**(19,462)**	(19,462)
Supplementary dividend		**-**	-	**(663)**	(663)
Foreign investor tax credit		**-**	-	**663**	663
Balance at 30 June 2011		**358,233**	(17,420)	**985**	341,798
Balance at 1 July 2011		**358,233**	(17,420)	**985**	341,798
Comprehensive income					
Profit/(loss) for the year		**-**	-	**19,887**	19,887
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	25	**-**	(658)	**-**	(658)
Foreign currency translation differences	25	**-**	1,189	**-**	1,189
Total comprehensive income		**-**	531	**19,887**	20,418
Transactions with owners					
Shares issued	24	**2,426**	-	**-**	2,426
Buy back of issued shares	24	**(2,075)**	-	**-**	(2,075)
Share based payment	25	**-**	288	**-**	288
Transfer of expired share based payments during the year	25	**-**	(642)	**642**	-
Dividend paid (2 cents per ordinary share)		**-**	-	**(7,844)**	(7,844)
Supplementary dividend		**-**	-	**(240)**	(240)
Foreign investor tax credit		**-**	-	**240**	240
Balance at 30 June 2012		**358,584**	(17,243)	**13,670**	355,011

* See changes in accounting policy - note 2(Z)(i)

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 13 – 43

PARENT	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2010		**353,741**	6,831	**21,370**	381,942
Comprehensive income					
Profit/(loss) for the year		**-**	-	**(92,684)**	(92,684)
Total comprehensive income		**-**	-	**(92,684)**	(92,684)
Transactions with owners					
Shares issued	24	**7,009**	-	**-**	7,009
Buy back of issued shares	24	**(2,517)**	-	**-**	(2,517)
Share based payment	25	**-**	488	**-**	488
Transfer of expired share based payments during the year	25	**-**	(155)	**155**	-
Dividend paid (5 cents per ordinary share)		**-**	-	**(19,462)**	(19,462)
Supplementary dividend		**-**	-	**(663)**	(663)
Foreign investor tax credit		**-**	-	**663**	663
Balance at 30 June 2011		**358,233**	7,164	**(90,621)**	274,776
Balance at 1 July 2011		**358,233**	7,164	**(90,621)**	274,776
Comprehensive income					
Profit/(loss) for the year		**-**	-	**(14,708)**	(14,708)
Total comprehensive income		**-**	-	**(14,708)**	(14,708)
Transactions with owners					
Shares issued	24	**2,426**	-	**-**	2,426
Buy back of issued shares	24	**(2,075)**	-	**-**	(2,075)
Share based payment	25	**-**	288	**-**	288
Transfer of expired share based payments during the year	25	**-**	(642)	**642**	-
Dividend paid (2 cents per ordinary share)		**-**	-	**(7,844)**	(7,844)
Supplementary dividend		**-**	-	**(240)**	(240)
Foreign investor tax credit		**-**	-	**240**	240
Balance at 30 June 2012		**358,584**	6,810	**(112,531)**	252,863

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 13 – 43

Consolidated Statement of Cash Flow

For the year ended 30 June 2012

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash flows from operating activities				
Receipts from customers	**108,317**	119,353	**-**	-
Interest received	**7,206**	3,196	**2,849**	1,459
Other revenue	**131**	1,490	**57**	89
Production and marketing expenditure	**(24,940)**	(31,829)	**-**	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)	**(11,085)**	(12,783)	**(10,229)**	(8,444)
Royalties	**(10,538)**	(8,265)	**-**	-
Interest paid	**(2,492)**	(2,557)	**-**	-
Income taxes paid	**(3,437)**	(3)	**(4,750)**	-
Net cash inflow / (outflow) from operating activities	**63,162**	68,602	**(12,073)**	(6,896)
Cash flows from investing activities				
Receipt of loan repayment from Pike River Coal Ltd (In Receivership)	**37,656**	-	**-**	-
Exploration and evaluation expenditure	**(9,506)**	(3,768)	**-**	-
Oil & gas expenditure	**(1,352)**	(4,106)	**-**	-
Subsidiary shares issued to NZOG	**-**	-	**(6,327)**	-
Purchase of property, plant and equipment	**(229)**	(48)	**(164)**	(48)
Loan advance to Pike River Coal Ltd (In Receivership)	**(6,843)**	(25,000)	**-**	-
Loan from/(to) wholly owned subsidiaries	**-**	-	**97,388**	25,474
Security bond	**(2,244)**	-	**(1,232)**	-
Net cash inflow / (outflow) from investing activities	**17,482**	(32,922)	**89,665**	25,426
Cash flows from financing activities				
Issues of shares	**29**	387	**29**	387
Borrowings	**(16,525)**	182	**-**	-
Buy back of issued shares	**(2,075)**	(2,517)	**(2,075)**	(2,517)
Dividend paid	**(5,685)**	(13,503)	**(5,685)**	(13,503)
Net cash inflow / (outflow) from financing activities	**(24,256)**	(15,451)	**(7,731)**	(15,633)
Net increase / (decrease) in cash and cash equivalents	**56,388**	20,229	**69,861**	2,897
Cash and cash equivalents at the beginning of the year	**149,360**	142,404	**101,880**	107,606
Effects of exchange rate changes on cash and cash equivalents	**3,473**	(13,273)	**3,049**	(8,623)
Cash and cash equivalents at end of year	**209,221**	149,360	**174,790**	101,880

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes on pages 13 – 43

Notes to the Consolidated Financial Statements

1. General information

New Zealand Oil & Gas Limited (the "Company" or "Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand ("NZX") and Australian Stock Exchanges ("ASX"). The Company is an issuer in terms of the Financial Reporting Act 1993.

The financial statements presented herewith as at and for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

These financial statements have been approved for issue by the Board of Directors on 22 August 2012.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for New Zealand Oil & Gas Limited as an individual entity and the consolidated Group.

(A) Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of measurement

These financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair value: Convertible Bond and shares held in Pan Pacific Petroleum NL.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (NZD or $), unless otherwise stated, which is the Company's functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the recoverability of evaluation and exploration and production assets, the recoverability of the convertible bond and short-term funding arrangement issued to Pike River Coal Limited (In Receivership), (PRCL), the provision for restoration and rehabilitation obligations and the recoverability of deferred tax assets.

The assumptions required to be made in order to assess the recoverability of exploration and evaluation assets and oil and gas assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. (Refer to notes 17 and 18)

The assumptions made in respect of restoration and rehabilitation obligations include an estimate of future costs, timing of required restoration and an estimated discount rate. (Refer to note 22)

The key assumption concerning the recoverability of deferred tax assets is the ability of entities in the Group to generate future taxable income. (Refer to note 23)

The assumptions required to be made in order to assess the recoverability of the investment in PRCL shares, the recoverability of the convertible bond and short-term funding arrangement issued to PRCL include an assessment of the best estimate of recovery using a range of applied probabilities to the estimated future cash flows. (Refer to notes 12, 14 and 19)

(B) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. (Refer to note 15)

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the income statement and statement of financial position respectively.

Investments in subsidiaries are carried at their cost of acquisition in the parent Company's financial statements, except where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company. The directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus

- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Oil and gas interests

Oil and gas interests are those joint arrangements established by contractual agreement over which the Group has joint control. The Group financial statements include a proportional share of the oil and gas interests' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that control commences until the date that control ceases.

(C) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in statement of comprehensive income and held in equity reserves as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non monetary items, such as equities classified as fair value through other comprehensive income, are included in the statement of comprehensive income and held in the fair value reserves in equity.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at balance date;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a component of equity.

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(D) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables and investments in equity securities.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Investments in equity securities

The Group's investments in equity securities where the Group does not have joint control are classified as financial assets that are fair valued through other comprehensive income. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in the statement of comprehensive income and held in the revaluation reserve. When an investment is derecognised, the cumulative gain or loss in the revaluation reserve is transferred to the income statement.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

Convertible Bond

Issued convertible bonds are stated at the assessed fair value with movements in fair value being recognised in the income statement.

Interest-bearing borrowings

Interest-bearing borrowings are classified as other liabilities and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments which comprise of cash at bank, short-term deposits and deposits at call with an original maturity of six months or less. Cash also includes the Group's share of cash held in oil and gas interests and restricted cash held under the Group's interest bearing borrowing arrangements.

Refundable security deposits

Security deposits include amounts held by key suppliers as bonds for work to be undertaken and deposits with government agencies subject to licence work programme commitments being met.

Performance bonds

Performance bonds include amounts held as a bond under the terms of entering joint studies and production sharing contracts in Indonesia. The bonds are refundable at the completion of the agreed work programmes under the joint study agreements and production sharing contracts.

Other

Accounting for finance income and expenses is discussed in note 2(Q).

(ii) Derivative financial instruments

From time to time the Group may use derivative financial instruments to hedge its exposure to commodity risks and foreign exchange risks arising from operational and financing activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Trading instruments

These derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign currency gains and losses.

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(E) Exploration and evaluation assets

Exploration and evaluation expenditure costs capitalised represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which: (i) Such costs are expected to be recouped through successful development of the area of interest, or alternatively, by its sale; or (ii) Exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

Capitalised exploration and evaluation expenditure are impaired and an impairment loss is recognised in the income statement under the successful efforts method of accounting, in the period that exploration work demonstrates that an area of interest or any part thereof is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made. An area of interest is defined by the Group as being a permit area where rights of tenure are current.

Upon determining technical feasibility and commercial viability of an area of interest exploration and evaluation assets for the area of interest in question is transferred to development assets. No amortisation is provided for in respect of exploration and evaluation assets.

The recoverability of exploration and evaluation assets is contingent upon facts, such as technical success and commercial development, sale of the area of interest, the results of further exploration, agreements entered into with other parties, and also upon meeting commitments under the terms of permits granted and joint venture agreements.

Expenditure incurred prior to obtaining the rights of tenure in relation to separate areas of interest are expensed in the period in which they are incurred.

(F) Oil and gas assets

Development

Development assets include construction, installation and completion of infrastructure facilities such as pipelines and development wells.

No amortisation is provided in respect of development assets until they are reclassified as production assets.

Production assets

Production assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced. Expenditure on production areas of interest and any future estimated expenditure necessary to develop proven and probable reserves are amortised using the units of production method or on a basis consistent with the recognition of revenue. The carrying value is assessed for impairment each reporting date.

Under/over lift

Lifting arrangements for petroleum products produced in jointly owned operations are of such a frequency that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of the petroleum product. The net movement in underlift and overlift is recognised under operating costs in the income statement.

Subsequent costs

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

(G) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

– Leasehold improvements	13 years
– Furniture and fittings	4-10 years
– Computer hardware & technical equipment	2-6 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(H) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(I) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(J) Impairment

The carrying amounts of the Group's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

(i) Impairment of receivables

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

(ii) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. For exploration and evaluation assets the method for reviewing for impairment is described in note 2J(iii).

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when either the period of the exploration right has expired or will expire in the near future, substantive expenditure on further exploration for and evaluation in the specific area is neither budgeted or planned, exploration for and evaluation in the specific area have not led to the discovery of commercially viable quantities and the Group has decided to discontinue such activities in the area or there is sufficient data to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Any impairment loss is recognised as an expense in the income statement in the period.

(K) Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(L) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Share based payments

The issue date fair value of partly paid shares issued to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the partly paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly paid shares that vest.

(M) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Make good provision

A make good provision is recognised in respect of the Group's obligation in relation to its leased buildings.

(ii) Restoration and rehabilitation provision

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas. Any changes in the liability in future periods are added or deducted from the related asset, other than the unwinding of the discount which is recognised as an interest expense in the income statement as it occurs.

(N) Borrowing costs

Borrowing costs relating to assets under development up to the date that substantially all activities necessary to prepare assets under development for intended use are complete, are capitalised as a cost of the development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate.

(O) Revenue recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST).

(i) Sales of goods

Sales comprise revenue earned from the provision of petroleum products. Revenue is recognised when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer.

(ii) Royalty income

Royalty income is recognised on the date the Group's right to receive payment is established and the amount can be reliably measured.

(P) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(Q) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets at fair value through other comprehensive income, foreign currency gains and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of financial assets at fair value through other comprehensive income and losses on hedging instruments that are recognised in the income statement. All borrowing costs, other than those capitalised on qualifying development assets, are recognised in the income statement using the effective interest method.

(R) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(S) Royalties expense

The Group recognises petroleum royalties payable to the New Zealand Government on an accruals basis.

(T) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the financial performance attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the financial performance attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises issued convertible notes and granted share options.

(U) Net tangible asset backing per share

The Group presents net tangible asset backing per share for its issued shares. Net tangible asset backing per share is calculated by dividing net tangible assets by the number of ordinary shares of the Company, excluding treasury stock, as at the end of the reporting period. Net tangible assets is calculated by taking intangibles and liabilities off total assets as presented at the end of the reporting period.

(V) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, office expenses, and income tax assets and liabilities.

(W) Fair value estimation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of financial assets at fair value through other comprehensive income that are traded on an active market is determined by reference to their quoted bid price at the reporting date.

The fair value of financial assets at fair value through other comprehensive income that are not traded on an active market is determined by the use of a valuation technique.

The fair value of equity options is measured using the Black Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on historic volatility), life of the equity option, expected dividend yield and the risk free interest rate.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

The fair value of employee partly paid shares is measured using the Black Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), life of the instruments, expected dividends and the risk free interest rate. Service conditions attached to the transactions are not taken into account in determining fair value.

(X) Standards, amendments and interpretations effective during the year

The Group has adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards:

- *NZIAS 24, Related Party Disclosures (revised 2009)* – (effective from annual periods beginning on or after 1 January 2011)
- *NZ IFRS 7, Financial Instruments: Disclosures (Improvements IFRSs 2010)* – (effective from annual periods beginning on or after 1 January 2011)
- *NZ IAS 1, Presentation of Financial Statements (Improvements to IFRSs 2010)* – (effective from annual periods beginning on or after 1 January 2011)
- *NZ IFRS 7, Financial Instruments: Disclosures – Transfer of financial assets (Amendments)* – (effective from annual periods beginning on or after 1 July 2011)
- *NZ IFRS 9 (2009), Financial Instruments* – (adopted from 1 July 2010 prior to its effective date of 1 January 2013).

(Y) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 January 2012 or later periods but which the Company has not early adopted:

- *NZ IAS 12, Income Taxes (Amendment)* – Deferred Tax: Recovery of Underlying Assets – (effective from annual periods beginning on or after 1 January 2012)
- *NZ IAS 1, Presentation of Financial Statements (Amendments)* – Presentation of Items of Other Comprehensive Income – (effective from annual periods beginning on or after 1 July 2012)
- *NZ IFRS 9, Financial Instruments (2010)* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 10, Consolidated Financial Statements* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 11, Joint Arrangements* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 12, Disclosure of Interests in Other Entities* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 13, Fair Value Measurement* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IAS 27, Separate Financial Statements (2011)* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IAS 28, Investments in Associates and Joint Ventures (2011)* – (effective from annual periods beginning on or after 1 January 2013)

The impact of these accounting policies has not been assessed at this point in time.

(Z) Changes in accounting policies

There have been no changes in accounting policies during the current year, with the exception of the adoption of the revised accounting standards that are listed in note 2(X). The adoption of the revised accounting standards have not resulted in a significant change to the Groups accounting policies from prior years. All other accounting policies have been applied on a basis consistent with the prior year.

(i) Restatement of Comparatives

A restatement has been made to the 2011 Group comparative figures to correct an error relating to the restoration and rehabilitation provision. In previous years the Group determined the provision by discounting expected future expenditure at discount rates of 10-12%. The provision should be determined by discounting expected future expenditure at an appropriate risk free interest rate relevant to the currency of the expected expenditure.

Impact on Restated Statement of Financial Position – 1 July 2010

	Original $000	Restated $000	Restatement $000
ASSETS			
Oil and gas assets	253,917	267,624	13,707
LIABILITIES			
Restoration and rehabilitation provision	11,998	29,221	17,223
Net deferred tax liabilities	23,137	22,082	(1,055)
Impact on Net Assets			**(2,461)**
EQUITY			
Reserves	(8,697)	(8,775)	(78)
Retained earnings	99,166	96,783	(2,383)
Impact on Equity			**(2,461)**

Impact on Restated Statement of Financial Position – 30 June 2011

	Original $000	Restated $000	Restatement $000
ASSETS			
Oil and gas assets	232,579	238,841	6,262
LIABILITIES			
Restoration and rehabilitation provision	15,715	25,645	9,930
Net deferred tax liabilities	28,176	27,149	(1,027)
Impact on Net Assets			**(2,641)**
EQUITY			
Reserves	(17,766)	(17,420)	346
Retained earnings	3,972	985	(2,987)
Impact on Equity			**(2,641)**

Impact on Restated Income Statement – 30 June 2011

	Original $000	Restated $000	Restatement $000
Operating costs	(53,805)	(55,070)	(1,265)
Net finance income/(costs)	(113,861)	(113,325)	536
Income tax (expense)/benefit	(5,279)	(5,128)	151
Profit/(loss) for the year	**(75,887)**	**(76,491)**	**(604)**
Foreign currency translation differences	(9,252)	(8,828)	424
Impact on Total Comprehensive Income for the year	**(85,289)**	**(85,469)**	**(180)**

	Cents	Cents	Cents
Earnings per share attributable to shareholders – Basic and Diluted	(19.1)	(19.3)	(0.2)

The increase in provision has been added to the related asset in accordance with accounting policy – refer to note 2(M)(ii).

3. Segment information

For management purposes the Group's activities are organised into a number of different segments based on the nature of the venture or investment.

Management monitors operating results and technical data associated with these segments separately for the purposes of making decisions about resource allocation and performance assessment. The financial performance of each segment is evaluated based on profit before tax and net finance costs (profit before tax and interest) and is measured in accordance with the Group's accounting policies. The Group's financing requirements, finance income, finance costs, taxes and other corporate activities are managed at a Group level.

The following summaries describe the activities within each of the reportable operating segments:

Oil and gas

Tui area oil fields: development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand.

Kupe field: development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of PML 38146 located in the offshore Taranaki basin, New Zealand.

Exploration: exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand, in Tunisia and in Indonesia.

Investments

Investments held by the Group are in resource companies listed on the New Zealand and Australian stock exchanges. At balance date the investments held were in Pike River Coal Limited (In Receivership) and Pan Pacific Petroleum NL.

No operating segments have been aggregated to form the above reportable segments.

Segment revenues are allocated based on whether the customer is located in New Zealand or overseas. All segment assets are based in New Zealand with the exception of the investment in Pan Pacific Petroleum NL, which is an Australian listed company, and investment in exploration and evaluation assets in Tunisia and Indonesia.

2012	Oil & Gas assets – Tui $'000	Oil & Gas assets – Kupe $'000	Oil & Gas assets – Exploration $'000	Investments $'000	Other & unallocated $'000	Total $'000
Sales to external customers – NZ	-	37,175	-	-	-	37,175
Sales to external customers – other countries	42,040	37,160	-	-	-	79,200
Total sales revenue	**42,040**	**74,335**	**-**	**-**	**-**	**116,375**
Other income	-	791	-	-	130	921
Total revenue and other income	**42,040**	**75,126**	**-**	**-**	**130**	**117,296**
Segment result	**20,435**	**31,854**	**(2,389)**	**(16,500)**	**(9,875)**	**23,525**
Other reconciling items – net finance income/(costs)						8,849
Profit/(loss) before income tax						32,374
Income tax (expense)/benefit						(12,487)
Profit/(loss) for the year						19,887
Segment assets	**20,150**	**198,387**	**14,893**	**20,676**	**-**	**254,106**
Other reconciling items						230,933
Total assets						485,039
Included in the segment result: Depreciation and amortisation expense	6,769	21,189	-	-	147	28,105
Impairment of loan to Pike River Coal Limited (In Receivership)	-	-	-	(16,500)	-	(16,500)

Restated* 2011	Oil &Gas assets – Tui $'000	Oil & Gas assets – Kupe $'000	Oil & Gas assets – Exploration $'000	Investments $'000	Other and unallocated $'000	Total $'000
Sales to external customers – NZ	-	32,504	-	-	-	32,504
Sales to external customers – other countries	40,140	33,829	-	-	-	73,969
Total sales revenue	**40,140**	**66,333**	**-**	**-**	**-**	**106,473**
Other income	-	1,353	-	-	1,077	2,430
Total revenue and other income	40,140	67,686	-	-	1,077	108,903
Segment result	**15,746**	**29,029**	**(3,434)**	**(92,379)**	**(9,993)**	**(61,031)**
Other reconciling items – net finance income/(costs)						(10,332)
Profit/(loss) before income tax						(71,363)
Income tax (expense)/benefit						(5,128)
Profit/(loss) for the year						(76,491)
Segment assets	**24,123**	**208,456**	**7,322**	**62,765**	**-**	**302,666**
Other reconciling items						170,569
Total assets						473,235
Included in the segment result: Depreciation and amortisation expense	3,334	20,105	-	-	228	23,667
Impairment of loan to Pike River Coal Limited (In Receivership)	-	-	-	(14,550)	-	(14,550)
Impairment of investment in Pike River Coal Limited (In Receivership)	-	-	-	(77,088)	-	(77,088)

* See changes in accounting policy - note 2(Z)(i)

4. Income

	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Revenue				
Petroleum sales	**116,375**	106,473	**-**	-
Total revenue	**116,375**	106,473	**-**	-
Other income				
Rental income	**49**	137	**-**	87
Carbon emission expenditure recovered	**791**	1,353	**-**	-
Other income	**81**	940	**66**	696
Total other income	**921**	2,430	**66**	783
Total income	**117,296**	108,903	**66**	783

5. Operating costs

	Group 2012 $'000	Group Restated* 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Production and sales marketing costs	**20,030**	20,876	**-**	-
Amortisation of production asset	**27,958**	23,439	**-**	-
Repairs and maintenance	**2,769**	8,352	**-**	-
Carbon emission expenditure	**993**	1,983	**-**	-
Insurance expenditure	**1,657**	1,608	**-**	-
Movement in inventory	**(328)**	(603)	**-**	-
Movement in stock over/(under) lift	**(304)**	(585)	**-**	-
Total operating costs	**52,775**	55,070	**-**	-

* See changes in accounting policy - note 2(Z)(i)

6. Other expenses

	Group 2012 $'000	Group 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Classification of other expenses by nature:				
Audit fees	**159**	139	**133**	130
Directors' fees	**470**	487	**470**	487
Legal fees	**352**	244	**253**	218
Consultants' fees	**1,494**	1,523	**1,493**	1,443
Employee expenses	**4,878**	4,750	**5,157**	4,750
Depreciation	**98**	100	**80**	100
Amortisation of intangible assets	**49**	128	**49**	128
Share based payment expense	**288**	488	**288**	488
Donations	**1**	500	**1**	-
Other	**2,216**	2,711	**2,402**	2,701
Total other expenses	**10,005**	11,070	**10,326**	10,445

Remuneration of auditors

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Auditor's remuneration to KPMG comprises:				
Audit and review of financial statements	**159**	139	**133**	130
Non audit related services:				
Tax compliance services	**100**	97	**100**	97
Tax advisory services	**236**	329	**236**	329
Other assurance services	**48**	32	**48**	32
Total remuneration of auditors	**543**	597	**517**	588

Other assurance services include providing assurance services at the annual general meeting of the Company and providing accounting technical advice.

7. Net finance income/(costs)

	Notes	Group		Parent	
		2012 $'000	Restated* 2011 $'000	2012 $'000	2011 $'000
Finance costs					
Interest and finance charges		**(2,942)**	(3,555)	**(1)**	-
Exchange losses on foreign currency balances		**-**	(10,991)	**-**	(8,623)
Impairment of loan to Pike River Coal Limited (In Receivership) - principal (note 12)		**(13,765)**	(13,000)	**-**	-
Impairment of loan to Pike River Coal Limited (In Receivership) - interest (note 12)		**(2,735)**	(1,550)	**-**	-
Fair value adjustment of financial asset (note 19)		**-**	(742)	**-**	-
Impairment of investment in Pike River Coal Limited (In Receivership)		**-**	(77,088)	**-**	-
Net fair value loss on convertible bond (note 14)		**-**	(6,399)	**-**	-
Impairment of loans and investment in subsidiaries		**-**	-	**(13,691)**	(96,618)
Total finance costs		**(19,442)**	(113,325)	**(13,692)**	(105,241)
Finance income					
Interest income		**7,265**	10,614	**3,752**	1,396
Exchange gains on foreign currency balances		**4,526**	-	**3,073**	-
Dividend income		**-**	-	**4,103**	17,926
Total finance income		**11,791**	10,614	**10,928**	19,322
Net finance income/(costs)		**(7,651)**	(102,711)	**(2,764)**	(85,919)

* See changes in accounting policy - note 2(Z)(i)

8. Royalties expense

Royalty expenses incurred by the Group relate to payments to the New Zealand Government in respect of the Tui area oil fields and Kupe gas and oil field.

9. Income tax expense

	Group		Parent	
	2012 $'000	Restated* 2011 $'000	2012 $'000	2011 $'000
(a) Income tax expense				
Current tax	**7,761**	-	**-**	-
Deferred tax (Refer note 23)	**4,726**	4,599	**1,684**	(2,897)
Under/(over) provided in prior years	**-**	529	**-**	-
Total income tax expense	**12,487**	5,128	**1,684**	(2,897)
(b) Income tax expense calculation				
Profit/(loss) before income tax expense and royalties	**44,476**	(63,382)	**(13,024)**	(95,581)
Less: royalties expense	**(12,102)**	(7,981)	**-**	-
Profit/(loss) before income tax expense	**32,374**	(71,363)	**(13,024)**	(95,581)
Tax at the New Zealand tax rate of 28% (2011: 30%)	**9,065**	(21,409)	**(3,647)**	(28,674)
Tax effect of change in tax rate	**-**	(2,296)	**-**	(99)
Tax effect of amounts which are not deductible/(taxable):				
Foreign exchange adjustments	**357**	(1,141)	**-**	-
Impairment of financial assets	**3,854**	27,027	**-**	-
Dividends from wholly owned subsidiaries	**-**	-	**(1,231)**	(5,378)
Impairment of loans and investment in subsidiaries	**-**	-	**3,833**	28,985
Other expenses/(income)	**(688)**	1,136	**426**	154
	12,588	3,317	**(619)**	(5,012)
Under/(over) provision in prior years	**(101)**	1,811	**(293)**	(3,689)
Losses utilised/(transferred)	**-**	-	**2,596**	5,804
Income tax expense/(benefit)	**12,487**	5,128	**1,684**	(2,897)

On 27 May 2010, the Taxation (Budget Measures) Act 2010 was given royal assent meaning that for the 2011/12 income tax year the New Zealand company tax rate changed from 30% to 28%. The effect of the reduction in the tax rate on the measurement of deferred tax assets and liabilities has been shown in the table above.

* See changes in accounting policy - note 2(Z)(i)

10. Imputation credits

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Imputation credit account				
Balance at beginning of year	7,369	15,044	212	204
Tax payments, net of refunds	3,439	-	4,750	-
Credits attached to dividend distributions	(4,883)	(7,675)	(3,125)	(7,675)
Credits attached to dividends received	1,758	-	1,758	7,683
Balance at end of year	7,683	7,369	3,595	212

11. Cash and cash equivalents

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash at bank and in hand	**17,103**	20,530	**724**	25
Deposits at call	**7,259**	25,452	**1,775**	2,114
Short-term deposits	**172,291**	99,741	**172,291**	99,741
Share of oil and gas interests' cash	**12,568**	3,637	**-**	-
Total cash and cash equivalents	**209,221**	149,360	**174,790**	101,880

Cash and cash equivalents denominated in currencies other than the presentation currency comprise $57.1 million denominated in US dollars; NZ dollar equivalent $71.8 million (2011: US dollars $70.1 million; NZ dollar equivalent $85.1 million).

(a) Deposits at call and short-term deposits

The deposits at call and short-term deposits are bearing interest rates at between 0.1% and 3.6% (2011: 0.1% and 3.7%).

(b) Restriction of use

Included in cash and cash equivalents is:

Cash held in respect of the Kupe project of $16.0 million (2011: $19.5 million) at balance date may not be used for general working capital requirements, except after meeting interest, principal repayment and other terms of the Kupe project finance facility with Westpac Banking Corporation.

A cash deposit of US$3.8million (NZ dollar equivalent $4.7million) is held in escrow by Commonwealth Bank of Australia as security for a Letter of Credit facility provided by the bank.

12. Receivables and prepayments

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Net trade receivables				
Trade receivables	**14,714**	5,632	**1,702**	121
Interest receivable	**1,090**	187	**1,090**	187
Share of oil and gas interests' receivables	**439**	739	**-**	-
	16,243	6,558	**2,792**	308
Advances to related parties	**-**	-	**13,293**	121,238
Net receivables from Pike River Coal Limited (In Receivership) (PRCL)				
Short-term loan to PRCL – principal	**2,427**	12,000	**-**	-
Interest receivable on short-term loan to PRCL	**-**	1,298	**-**	-
Interest receivable on convertible bond issued to PRCL	**57**	3,062	**-**	-
	2,484	16,360	**-**	-
Other				
Prepayments	**995**	714	**223**	58
Stock over lift receivable	**290**	-	**-**	-
Other	**84**	101	**38**	69
Total receivables and prepayments	**20,096**	23,733	**16,346**	121,673

Trade receivables denominated in currencies other than the presentation currency comprise $7.5 million denominated in US dollars; NZ dollar equivalent $9.4 million (2011: $2.3 million denominated in US dollars; NZ dollar equivalent $2.7 million).

12. Receivables and prepayments (continued)

Pike River Coal Limited (In Receivership) (PRCL) – Short-term funding arrangement

On 13 December 2010 PRCL was placed into receivership at the request of its directors.

At the date of the receivership PRCL had drawn $25.0 million under a short-term loan funding arrangement ($13.0 million on an unsecured basis and $12.0 million on a secured basis). The Group advanced a further $6.8 million under the short-term secured funding arrangement and received $2.7 million in part repayment of outstanding unsecured debt. At 30 June 2012 the Group's best estimate of the recoverable value of funds advanced under the short-term funding arrangement was $2.4 million.

During the year the Group recognised an impairment loss on the short-term funding arrangement of $16.5 million. The impairment loss recognised on the outstanding principal and interest receivable from PRCL has been included in 'net finance income/(costs)' in the income statement. The position was reached after discussions with the Receivers and consideration of a range of potential outcomes from the PRCL Receivership. The Group's consideration of a best estimate of the likely recoverable value was determined after applying a range of probabilities to the estimated future cash flows from the initial purchase price from the sale of the mine, deferred payment from the sale of the mine and other forecast cash flows from the Receivers.

Post balance date receipts

On 19 July 2012, the Group received $5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds ($2.5 million), the interest on convertible bonds ($0.1 million) and short-term funding arrangement ($2.4 million) (Refer to note 32).

The Group considers there is still considerable uncertainty as to the timing and quantum of any further return to NZOG from the Receivers of PRCL and has attributed no value to the remaining short-term funding arrangement.

The Group also has a secured Convertible Bond facility with PRCL (Refer to note 14).

13. Inventories

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Oil stock, at cost	**627**	489	**-**	-
Emission units, at cost	**64**	1	**-**	-
Share of oil and gas interests' inventory, at cost	**649**	379	**-**	-
Total inventories	**1,340**	869	**-**	-

14. Convertible Bond

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current				
Convertible Bond – recoverable fair value	**2,499**	35,103	**-**	-
Total Convertible Bond	**2,499**	35,103	**-**	-

Pike River Coal Limited (In Receivership) (PRCL) – Convertible Bond facility

On 13 December 2010 PRCL was placed into receivership at the request of its directors.

At the date of the receivership PRCL had subscribed to a convertible bond with a face value of US$28.9 million. The facility in place is a first ranking secured debt that under the terms of a Deed of Priority and a Pari Passu Deed ranks equally with the loans issued by the BNZ (other than first ranking securities held by BNZ in respect of specific mining equipment) and any distribution of proceeds must be on a pro rata basis.

The Group received US$26.9 million (NZ$34.2 million) of principal and US$3.7 million (NZ$4.9 million) of interest on the US$28.9 million convertible bond facility. At 30 June 2012 the Group's best estimate of the fair value of the convertible bond facility was US$2.1 million (NZ$2.5 million).

The fair value position was reached after discussions with the Receivers and consideration of a range of potential outcomes from the PRCL Receivership. The Group's consideration of a best estimate of the likely recoverable value was determined after applying a range of probabilities to the estimated future cash flows from the initial purchase price from the sale of the mine, deferred payment from the sale of the mine and other forecast cash flows from the Receivers.

Post balance date receipts

On 19 July 2012, the Group received $5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds ($2.5 million), the interest on convertible bonds ($0.1 million) and short-term funding arrangement ($2.4 million) (Refer to note 32).

The Group considers there is still considerable uncertainty as to the timing and quantum of any further return to NZOG from the Receivers of PRCL and has attributed no value to the remaining convertible bonds.

The Group also has a short-term funding arrangement with PRCL (Refer to note 12).

15. Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following entities:

		Equity holding	
Name of entity	Country of incorporation	2012 %	2011 %
ANZ Resources Pty Limited	Australia	**100**	100
Australia and New Zealand Petroleum Limited	New Zealand	**100**	100
Kupe Royalties Limited	New Zealand	**100**	100
National Petroleum Limited	New Zealand	**100**	100
Nephrite Enterprises Limited	New Zealand	**100**	100
NZOG 38259 Limited	New Zealand	**100**	100
NZOG 38483 Limited	New Zealand	**100**	100
NZOG 38494 Limited	New Zealand	**100**	100
NZOG Asia Pty Limited (Incorporated 14 July 2011)	Australia	**100**	-
NZOG Bohorok Pty Limited (Incorporated 30 May 2012)	Australia	**100**	-
NZOG Canterbury Limited	New Zealand	**100**	100
NZOG Development Limited	New Zealand	**100**	100
NZOG Devon Limited	New Zealand	**100**	100
NZOG Egmont Limited	New Zealand	**100**	100
NZOG Energy Limited	New Zealand	**100**	100
NZOG Hammamet Pty Limited (Incorporated 6 September 2011)	Australia	**100**	-
NZOG Offshore Limited	New Zealand	**100**	100
NZOG Pacific Holdings Pty Limited (Incorporated 14 July 2011)	Australia	**100**	-
NZOG Pacific Limited	New Zealand	**100**	100
NZOG Services Limited	New Zealand	**100**	100
NZOG Taranaki Limited	New Zealand	**100**	100
NZOG Tunisia Pty Limited	Australia	**100**	100
Oil Holdings Limited	New Zealand	**100**	100
Pacific Oil & Gas (North Sumatera) Limited (i)	Bermuda	**90**	-
Petroleum Equities Limited	New Zealand	**100**	100
Petroleum Resources Limited	New Zealand	**100**	100
Resource Equities Limited	New Zealand	**100**	100
Stewart Petroleum Company Limited	New Zealand	**100**	100
Trustee of New Zealand Oil & Gas Employee Benefit Trust	New Zealand	**-**	-

All subsidiary companies have a balance date of 30 June with the exception of Pacific Oil & Gas (North Sumatera) Limited which has a 31 December balance date. All subsidiaries are predominantly involved in the petroleum exploration industry.

15. Investments in subsidiaries (continued)

All subsidiaries within the Group have a functional currency of New Zealand dollars, with exception to the following:

United States dollar functional currency companies:
- Stewart Petroleum Company Limited
- NZOG Tunisia Pty Limited
- NZOG Asia Pty Limited
- NZOG Hammamet Pty Limited
- NZOG Bohorok Pty Ltd
- NZOG Pacific Holdings Pty Limited
- Pacific Oil & Gas (North Sumatera) Limited

Australian dollar functional currency company:
- ANZ Resources Pty Limited

(i) In December 2011 the Group acquired an interest in the Kisaran production sharing contract in Indonesia with the purchase of a 90% shareholding in Pacific Oil & Gas (North Sumatera) Limited.

16. Oil and gas interests

The Group held the following oil and gas production, exploration, evaluation and appraisal interests at the end of the year:

			Interests held by the Group	
Name	**Country**	**Type**	**2012**	**2011**
PML 38146 – Kupe	New Zealand	Mining Licence	**15.0%**	15.0%
PMP 38158 – Tui	New Zealand	Mining Permit	**12.5%**	12.5%
PEP 38259 – Barque (v)	New Zealand	Exploration Permit	**40.0%**	40.0%
PEP 51311 – Kakapo (ii)	New Zealand	Exploration Permit	**100.0%**	100.0%
PEP 51321 – Kahurangi	New Zealand	Exploration Permit	**-%**	18.9%
PEP 38491 – Albacore (i)	New Zealand	Exploration Permit	**-%**	100.0%
PEP 51988 - Mangaa (i)	New Zealand	Exploration Permit	**-%**	100.0%
PEP 51558 – Kanuka	New Zealand	Exploration Permit	**50.0%**	20.0%
PEP 52181 – Kaheru (iii)	New Zealand	Exploration Permit	**-%**	-%
Diodore	Tunisia	Prospecting Permit	**100.0%**	100.0%
Bohorok PSC (iv)	Indonesia	Production Sharing Contract	**-%**	-%
Kisaran PSC	Indonesia	Production Sharing Contract	**22.5%**	-%
Cosmos	Tunisia	Concession	**40.0%**	-%

(i) PEP 38491 (Albacore) and PEP 51988 (Mangaa) were relinquished to the Crown on 20 January 2012.

(ii) NZOG has entered into a farm-out agreement with Raisama Limited which will reduce NZOG's interest in PEP 51311 to 90%, subject to final conditions being met and the subsequent approval of the Minister of Energy.

(iii) As at 30 June the Group has a 60% interest in a New Zealand exploration permit PEP 52181 (Kaheru permit) that was conditional on a drilling commitment being made by mid-September 2012 to drill a well in Kaheru in 2013-14. At 30 June 2012 contract conditions remained outstanding.

(iv) During the year the NZOG Group and its partners were the winning bidders for a Production Sharing Contract (PSC) for the Bohorok permit in North Sumatera. On 25 July 2012 after balance date NZOG and its partners signed the Bohorok PSC with NZOG taking a 45% share. As at 30 June 2012 the Group had incurred US$750,000 in relation to a performance bond that was a condition of the Bohorok PSC (Refer to note 19).

(v) On 10 August 2012, after the balance date, NZOG announced that the consortium with interests in PEP 38259 (Barque) agreed to relinquish the permit to the Crown. The Group has fully impaired the exploration and evaluation asset in PEP 38259 (Barque) at balance date (Refer to note 17).

	Group 2012 $'000	Group 2011 $'000
Share of oil and gas interests' assets and liabilities		
Current assets		
Cash and cash equivalents	**12,568**	3,637
Trade receivables *	**439**	739
Inventory	**649**	379
Non current assets		
Petroleum interests **	**321,449**	293,547
Total assets	**335,105**	298,302
Current liabilities		
Payables	**5,649**	5,511
Total liabilities	**5,649**	5,511
Net assets	**329,456**	292,791
Share of oil and gas interests' revenue, expenses and results		
Revenues *	**72**	94
Expenses	**(17,666)**	(21,926)
Profit before income tax	**(17,594)**	(21,832)

* Revenue receivable from Tui and Kupe petroleum sales (Refer to note 4) is not included as it is earned directly by wholly owned subsidiaries that hold the permit interests.

** Prior to amortisation of production assets.

17. Exploration and evaluation assets

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Opening balance	**7,322**	6,641	**-**	4,430
Expenditure capitalised	**10,047**	4,334	**-**	90
Revaluation of USD exploration and evaluation assets	**(87)**	(219)	**-**	-
Expenditure written off *	**(2,389)**	(3,434)	**-**	-
Transfer of exploration interest to wholly owned subsidiaries	**-**	-	**-**	(4,520)
Closing balance	**14,893**	7,322	**-**	-

* The expenditure written off during the year relates to the following permits: PEP 38491 (Albacore), PEP 51988 (Mangaa) and PEP 38259 (Barque). (Refer to note 16).

18. Oil and gas assets

	Group		Parent	
	2012 $'000	Restated* 2011 $'000	2012 $'000	2011 $'000
Opening balance	**238,841**	253,917	**-**	-
Prior period adjustment	**-**	13,703	**-**	-
Restated opening balance	**238,841**	267,620	**-**	-
Expenditure capitalised	**1,284**	1,622	**-**	-
Amortisation for the year	**(27,958)**	(23,439)	**-**	-
Revaluation of USD production assets	**773**	(4,807)	**-**	-
Abandonment provision	**5,597**	(2,155)	**-**	-
Closing balance	**218,537**	238,841	**-**	-

Includes capitalised borrowing costs of $10.5 million at 30 June 2012 (2011: $10.5 million).

* See changes in accounting policy - note 2(Z)(i)

19. Other financial assets

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Pan Pacific Petroleum NL – Shares:				
Investment assets (fair value through other comprehensive income)	**15,750**	15,662	**-**	-
	15,750	15,662	**-**	-
Other				
Investment in subsidiaries (Refer to note 15)	**-**	-	**56,498**	50,171
Performance bonds	**2,259**	-	**1,256**	-
Refundable security deposits	**43**	43	**-**	-
	2,302	43	**57,754**	50,171
Total other financial assets	**18,052**	15,705	**57,754**	50,171

(a) Investment assets

Shares held in Pan Pacific Petroleum NL

The investment of 87.5 million shares in Pan Pacific Petroleum NL is measured at fair value at reporting date of $15.8 million and is classified as an investment asset at fair value in accordance with NZ IFRS 9 (2009) (previously classified as available for sale financial asset). The Group has designated the investment asset as fair value with movements through other comprehensive income as this best matches the Group's holding intention for this investment.

Under the previous standard, NZ IAS 39, the Group was required to determine whether investments were impaired, with any impairment being recognised through profit or loss. No such impairment existed at the date of initial application of NZ IFRS 9 (2009). Accordingly, the previous available for sale reserve of $4.12 million has been transferred to a Revaluation Reserve. The cost of this investment was the equivalent of $23.1 million (US$17.8 million) and is held by Stewart Petroleum Company Limited.

Shares held in Pike River Coal Limited (In Receivership)

The Group's holding in PRCL comprises 119.0 million ordinary shares. On 13 December 2010 Pike River Coal Limited (PRCL) was placed into receivership at the request of its directors. From the date of receivership the investment was fully impaired with the impairment loss included in 'net finance income/(expense)' in the income statement.

In the year ended 30 June 2011 the investment in PRCL was no longer recognised as an associate investment and reclassified as a financial asset at fair value through profit or loss with a nil value.

Coal Contract Option with Pike River Coal Limited (In Receivership)

The coal contract option issued by PRCL expired on 31 March 2012. The fair value of the coal option contract in 2011 was nil.

(b) Refundable security deposits

Security deposits include amounts held by key suppliers as bonds for work to be undertaken and deposits with government agencies subject to license work programme commitments being met.

(c) Performance Bonds

Performance bonds include amounts held as a bond under the terms of entering joint study agreement and production sharing contracts in Indonesia. The bonds are refundable at the completion of the agreed work programmes under the joint study agreement and production sharing contracts.

20. Payables

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trade payables	**1,691**	861	**393**	726
Employee entitlements	**257**	284	**257**	284
Accrued expenses	**890**	1,647	**471**	598
Interest payable	**141**	413	**-**	-
Royalties payable	**7,774**	6,211	**-**	-
Share of oil and gas interests' payables	**5,649**	5,511	**-**	-
Other payables	**557**	392	**84**	83
Total payables	**16,959**	15,319	**1,205**	1,691

Payables denominated in currencies other than the presentation currency comprise $0.8 million of payables denominated in US dollars; NZ dollar equivalent $1.0 million (2011: US$0.7 million; NZ$ equivalent $0.9 million).

21. Borrowings

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Secured – Current				
Bank loans	**18,040**	14,644	**-**	-
Secured – Non-current				
Bank loans	**28,760**	48,680	**-**	-
Total borrowings	**46,800**	63,324	**-**	-

Assets pledged as security

At balance date the Group has a Letter of Credit facility in respect of the Tui area oil fields. At 30 June 2012 the Letter of Credit facility was US$3.8 million (30 June 2011: US$4.6 million). The Letter of Credit facility expires on 31 December 2015.

The Letter of Credit facility for the Tui area oil fields is secured over the Group's assets other than those primarily relating to the Kupe, investments in Pike River Coal Limited (In Receivership), and a number of exploration assets.

At 30 June 2012 the Group has a project facility in respect of Kupe of $46.8 million with Westpac Banking Corporation that was fully drawn.

The Kupe project facility is secured over the Group's Kupe assets. The facility is repaid progressively over the life until the facility is fully repaid by 31 March 2015.

22. Restoration and rehabilitation provision

	Group		Parent	
	2012 $'000	Restated* 2011 $'000	2012 $'000	2011 $'000
Restoration and rehabilitation provision	**32,392**	25,645	**-**	-
Total restoration and rehabilitation provisions	**32,392**	25,645	**-**	-

Provisions for restoration and rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefit will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected area. Due to the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred.

22. Restoration and rehabilitation provision (continued)

The provision is determined by discounting expected future expenditure at an appropriate risk free rate relevant to the currency of the expected expenditure. Changes in estimates of the timing and amount of expected future expenditure will impact on the provision in future.

In the current year the following risk free rates have been used to determine the provision based on the respective currency of expected expenditure:

NZ Dollar	3.40%
US Dollar	1.67%
Australian Dollar	3.04%

Movements in provisions

	2012 $'000	Restated* 2011 $'000
Group		
Carrying amount at start of year	**25,645**	11,998
Prior period adjustment	**-**	17,223
Restated opening balance	**25,645**	29,221
Addition/(reduction) in provision recognised	**5,597**	(2,155)
Unwinding of discount	**746**	810
Revaluation of USD provisions	**404**	(2,231)
Carrying amount at end of year	**32,392**	25,645

* See changes in accounting policy - note 2(Z)(i)

23. Deferred tax assets and liabilities

	Group		Parent	
	2012 $'000	Restated* 2011 $'000	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:				
Deferred tax assets				
Non-deductible provisions	**8,989**	7,181	**-**	-
Tax losses	**-**	1,675	**-**	1,676
Other items	**72**	602	**72**	80
Total deferred tax assets	**9,061**	9,458	**72**	1,756
Deferred tax liabilities				
Exploration assets	**(2,067)**	(2,157)	**-**	-
Oil and gas assets	**(36,118)**	(31,505)	**-**	-
Capitalised borrowing costs	**(2,649)**	(2,945)	**-**	-
Sub-total other	**(40,834)**	(36,607)	**-**	-
Net deferred tax assets/(liabilities)	**(31,773)**	(27,149)	**72**	1,756
Movements:				
Net deferred tax asset/(liability) at 1 July	**(27,149)**	(23,137)	**1,756**	(1,141)
Prior period adjustment *	**-**	1,055	**-**	-
Restated opening balance	**(27,149)**	(22,082)	**1,756**	(1,141)
Charged/(credited) to the income statement (Refer to note 9)	**(4,726)**	(4,599)	**(1,684)**	2,897
Foreign exchange differences	**102**	(468)	**-**	-
Closing balance at 30 June	**(31,773)**	(27,149)	**72**	1,756

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences.

* See changes in accounting policy - note 2(Z)(i)

24. Contributed equity of the Group and Parent

(a) Share capital

	2012 Number of Shares 000s	2011 Number of Shares 000s	2012 $'000	2011 $'000
Ordinary shares				
Fully paid shares	**392,788**	392,114	**358,499**	358,178
Partly paid shares	**9,520**	5,470	**85**	55
	402,308	397,584	**358,584**	358,233

(b) Movements in ordinary share capital:

	2012 Number of Shares 000s	2011 Number of Shares 000s	2012 $'000	2011 $'000
Opening	**397,584**	393,508	**358,233**	353,741
Issues of ordinary shares during the year				
Shares issued	**3,561**	5,236	**2,395**	6,622
Buy back of issued shares	**(2,887)**	(2,585)	**(2,075)**	(2,517)
Partly paid shares issued	**4,050**	1,425	**31**	387
Closing balance of ordinary shares issued	**402,308**	397,584	**358,584**	358,233

(c) Ordinary shares

Apart from the partly paid shares issued, all shares issued are fully paid. Each fully paid share issued is entitled to one vote.

(d) Partly paid shares

Partly paid shares issued by the company to participants of the employee share ownership plan (ESOP) are paid by the participant to $0.01 per share on issue. Partly paid shares are entitled to a vote in proportion to the amount paid up.

Information relating to the ESOP, including details of shares issued under the scheme, is set out in note 30.

25. Reserves

(a) Reserves

	Group		Parent	
	2012 $'000	Restated* 2011 $'000	2012 $'000	2011 $'000
Revaluation reserve	**(4,925)**	(4,267)	**-**	-
Share based payments reserve	**345**	699	**345**	699
Foreign currency translation reserve	**(12,663)**	(13,852)	**-**	-
Share revaluation reserve	**-**	-	**6,465**	6,465
Total reserves	**(17,243)**	(17,420)	**6,810**	7,164
Movements:				
Revaluation reserve				
Balance 1 July	**(4,267)**	-	**-**	-
Transferred on 1 July 2010 from available for sale reserve on adoption of NZ IFRS 9	**-**	(4,117)	**-**	-
Fair value loss through other comprehensive income	**(658)**	(150)	**-**	-
Balance 30 June	**(4,925)**	(4,267)	**-**	-
Available for sale financial asset reserve				
Balance 1 July	**-**	(4,117)	**-**	-
Transferred available for sale reserve to revaluation reserve on 1 July 2010	**-**	4,117	**-**	-
Balance 30 June	**-**	-	**-**	-
Share based payments reserve				
Balance 1 July	**699**	366	**699**	366
Share based payment expense for the year	**288**	488	**288**	488
Transfer of expired share based payments during the year	**(642)**	(155)	**(642)**	(155)
Balance 30 June	**345**	699	**345**	699
Foreign currency translation reserve				
Balance 1 July	**(13,852)**	(4,946)	**-**	-
Prior period adjustment	**-**	(78)	**-**	-
Restated opening balance	**(13,852)**	(5,024)	**-**	-
Foreign currency translation differences for the year	**1,189**	(8,828)	**-**	-
Balance 30 June	**(12,663)**	(13,852)	**-**	-
Share revaluation reserve				
Balance 1 July	**-**	-	**6,465**	6,465
Balance 30 June	**-**	-	**6,465**	6,465

* See changes in accounting policy - note 2(Z)(i)

(b) Nature and purpose of reserves

(i) Previous Available for sale reserve

This reserve relates to the equity investment in Pan Pacific Petroleum NL and the coal contract option with Pike River Coal Limited (In Receivership) that were classified as available for sale assets. The reserve represents changes in the fair value of the investment from the original cost. Amounts are recognised in the income statement when the associated assets are sold or impaired.

(ii) Revaluation reserve

This reserve relates to the residual reserve held in respect to the Pan Pacific Petroleum NL investment as at 1 July 2010 on adoption of NZ IFRS 9 which was reclassified to Revaluation Reserve.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of companies within the Group with a different functional currency to the Group are taken to the foreign currency translation reserve. Subsidiary companies with a functional currency different to the Group are outlined in note 15. The reserve is recognised in the income statement when the net investment is disposed of.

(iv) Share revaluation reserve

This reserve relates to the circumstances where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets. Amounts are recognised in the income statement when the wholly owned subsidiary is disposed of.

26. Earnings per share

	Group	
	2012 Cents	Restated* 2011 Cents
(a) Basic earnings per share		
Basic earnings per share	**5.0**	(19.3)
(b) Diluted earnings per share		
Diluted earnings per share	**5.0**	(19.3)

(c) Reconciliations of earnings used in calculating earnings per share

	Group	
	2012 $'000	Restated* 2011 $'000
Profit/(loss) for the year	**19,887**	(76,491)

(d) Weighted average number of shares used as the denominator

	Group	
	2012 Number 000s	2011 Number 000s
Weighted average number of ordinary shares used in calculating basic earnings per share	**400,263**	397,451

* See changes in accounting policy - note 2(Z)(i)

27. Reconciliation of profit after income tax to net cash inflow from operating activities

	Notes	Group 2012 $'000	Group Restated* 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Profit/(loss) for the year		**19,887**	(76,491)	**(14,708)**	(92,684)
Depreciation and amortisation		**28,105**	23,667	**129**	228
Deferred tax		**4,726**	4,599	**1,684**	(2,897)
Net fair value loss on convertible bonds		**-**	6,399	**-**	-
Fair value adjustment of financial asset		**-**	742	**-**	-
Impairment of loan to Pike River Coal Limited (In Receivership) - principal		**13,765**	13,000	**-**	-
Impairment of loan to Pike River Coal Limited (In Receivership) - interest		**2,735**	1,550	**-**	-
Impairment of investment in Pike River Coal Limited (In Receivership)		**-**	77,088	**-**	-
Loss/(gain) on investment held in subsidiaries		**-**	-	**13,691**	-
Exploration and evaluation costs expensed		**2,389**	3,434	**-**	-
Impairment of loans and investment in subsidiaries		**-**	-	**-**	96,618
Share based payment expense		**288**	488	**288**	488
Net foreign exchange differences		**(4,526)**	11,005	**(3,073)**	8,623
Non-cash dividend		**-**	-	**(4,103)**	(17,926)
Other		**689**	(260)	**-**	-
Change in operating assets and liabilities					
(Increase)/decrease in trade debtors		**(5,338)**	9,271	**(3,476)**	43
Increase/(decrease) in trade creditors		**442**	(5,890)	**(2,505)**	611
Net cash inflow from operating activities		**63,162**	68,602	**(12,073)**	(6,896)

* See changes in accounting policy - note 2(Z)(i)

28. Financial risk management

Exposure to credit, interest rate, foreign currency, equity price, commodity price and liquidity risk arises in the normal course of the Group's business.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign currency risk on cash and cash equivalents, performance bonds, convertible bond, oil sales and capital commitments that are denominated in a currency other than the Company's functional currency, New Zealand dollars ($), which is the presentation currency of the Group. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements.

The Group's exposure to foreign currency risk has been disclosed in notes 11, 12, 14 and 20.

(ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests.

(iii) Concentrations of interest rate exposure

The Group's main interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults.

Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short-term cash deposits, trade receivables, short-term funding arrangement and a convertible bond issued to Pike River Coal Limited (In Receivership) (PRCL).

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, with funds required to be invested with a range of separate counterparties.

The Group is exposed to a significant credit risk through its convertible bond and short-term funding arrangement to PRCL. This exposure is disclosed in notes 12 and 14.

The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

(c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has liquid funds and debt facilities in place to cover potential shortfalls.

The following table sets out the contractual cash flows for all non-derivative financial liabilities and for derivatives that are settled on a gross cash flow basis:

GROUP 30 June 2012	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Secured borrowings – principal and interest *	12,430	7,583	18,868	10,947	-	49,828
Payables	16,959	-	-	-	-	16,959
Total non-derivative liabilities	29,389	7,583	18,868	10,947	-	66,787

30 June 2011	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Secured borrowings – Principal and interest	3,817	12,967	19,365	32,947	-	69,096
Payables	15,319	-	-	-	-	15,319
Total non-derivative liabilities	19,136	12,967	19,365	32,947	-	84,415

At 30 June 2012 the Group had no derivatives to settle (2011: nil).

* The Group has a project finance facility which is secured over the Group's Kupe assets. The facility was drawn to $46.8 million at 30 June 2012 and is due to be progressively repaid over the period to expiry of the facility on 31 March 2015. The facility limit is determined by a borrowing base calculation which is updated quarterly. The above repayment schedule is based on current borrowing base calculations. The borrowing base is subject to variation based on future operating performance of the Kupe field and changes in reserves and product pricing assumptions.

PARENT 30 June 2012	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Payables	1,205	-	-	-	-	1,205
Total non-derivative liabilities	1,205	-	-	-	-	1,205

30 June 2011	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Payables	1,691	-	-	-	-	1,691
Total non-derivative liabilities	1,691	-	-	-	-	1,691

(d) Capital management

The Group manages its capital through the use of cash flow and corporate forecasting models to determine its future capital requirements and maintains a flexible capital structure which allows access to debt and equity markets to draw upon and repay capital as required. In July 2009 the company established a Dividend Reinvestment Plan which applies to dividends declared after 29 July 2009. The Group has an adequate capital base and significant cash reserves from which it can pursue its growth aspirations.

(e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, equity securities and currency risks. The Group's exposure to these risks is described in note 28(a).

The Group's estimated short-term impacts of fluctuations in these areas of risk are summarised below:

The impact on our foreign currency holdings of an increase in the value of the New Zealand dollar against the United States dollar by 5% at balance date would be to decrease the Group profit before tax by $3.3 million and decrease the foreign currency translation reserve in equity by $0.5 million (2011: $4.8 million decrease on profit before tax and $1.1 million decrease in the foreign currency translation reserve).

28. Financial risk management (continued)

The impact of an increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by $2.1 million (2011: $1.5 million increase), based on maintaining current cash balances.

The impact of an increase in the value of equity securities held by the Group at balance date, which are categorised as fair value through other comprehensive income, by 5% would increase the revaluation reserve in equity by $0.8 million (2011: $0.8 million increase).

(f) Recognised assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

(g) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Effective 1 July 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets that are measured at fair value. The parent has no assets or liabilities that are measured at fair value.

GROUP At 30 June 2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Financial assets at fair value through profit or loss				
Convertible Bond – recoverable fair value	**-**	-	**2,499**	2,499
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	**15,750**	-	**-**	15,750
Total assets measured at fair value	**15,750**	-	**2,499**	18,249

GROUP At 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Financial assets at fair value through profit or loss				
Convertible Bond – recoverable fair value	**-**	-	**35,103**	35,103
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	**15,662**	-	**-**	15,662
Total assets measured at fair value	**15,662**	-	**35,103**	50,765

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1. Instruments included in level 1 comprise primarily NZX 50 equity investments classified as fair value through comprehensive income.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

In 2012 the fair value of the convertible bond with Pike River Coal Limited (In Receivership) (PRCL), was based on discussions with the Receivers and consideration of a range of potential outcomes from the PRCL Receivership. The Group's consideration of a best estimate of the likely recoverable value was determined after applying a range of probabilities to the estimated future cash flows from the initial purchase price from the sale of the mine, deferred payment from the sale of the mine and other forecast cash flows from the Receivers.

Post balance date receipts

On 19 July 2012, the Group received $5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds ($2.5 million), the interest on convertible bonds ($0.1 million) and short-term funding arrangement ($2.4 million) (Refer to note 32).

In 2011 the fair value of the convertible bond with Pike River Coal Limited (In Receivership) was valued based on the best estimate of recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds.

The following table presents the changes in fair value of level 3 instruments:

GROUP At 30 June 2012	Coal Option Contract $'000	Convertible Bond – equity option $'000	Convertible Bond – recoverable fair value $'000	Total $'000
Opening balance	-	-	35,103	35,103
Purchases/(Repayment) of financial instrument	-	-	(35,006)	(35,006)
Gains/(losses) recognised in the income statement	-	-	1,680	1,680
Interest capitalised during the year	-	-	722	722
Closing balance	-	-	2,499	2,499
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	-	-	1,680	1,680

GROUP At 30 June 2011	Coal Option Contract $'000	Convertible Bond – equity option $'000	Convertible Bond – recoverable fair value $'000	Total $'000
Opening balance	721	3,917	-	4,638
Gains/(losses) recognised in the income statement	(721)	(3,917)	-	(4,638)
Transfer from loans and receivables	-	-	35,103	35,103
Closing balance	-	-	35,103	35,103
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	(721)	(3,917)	-	(4,638)

(h) Financial instruments by category

GROUP	Fair value through profit or loss $'000	Fair value through other comprehensive income $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2012				
Assets				
Cash and cash equivalents	-	-	209,221	209,221
Receivables	-	-	19,101	19,101
Other financial assets	-	15,750	2,302	18,052
	-	15,750	230,624	246,374
Liabilities				
Payables			16,959	16,959
Borrowings			46,800	46,800
			63,759	63,759

28. Financial risk management (continued)

GROUP	Fair value through profit or loss $'000	Fair value through other comprehensive income $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2011				
Assets				
Cash and cash equivalents	-	-	149,360	149,360
Receivables	-	-	23,019	23,019
Convertible bond	35,103	-	-	35,103
Other financial assets	-	15,662	43	15,705
	35,103	15,662	172,422	223,187
Liabilities				
Payables			15,319	15,319
Borrowings			63,324	63,324
			78,643	78,643

All Parent financial instruments are held at amortised cost.

29. Related party transactions

(a) Parent entity

The parent entity within the Group is New Zealand Oil & Gas Limited.

(b) Directors

The names of persons who were directors of the Company at any time during the financial year are as follows: A R Radford; P G Foley; A T N Knight; S J Rawson (resigned 27 January 2012); D J Salisbury (resigned 23 December 2011); D R Scoffham; P W Griffiths; M Tume (appointed 28 February 2012); and R J Finlay (appointed 28 February 2012).

The Directors of the above companies received no remuneration or other benefits from the subsidiary companies directly during the year, as their remuneration from NZOG Ltd covers all payments received for services.

(c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2012 and 30 June 2011 is set out below. The key management personnel are all the management and directors (executive and non executive) of the Company.

	Short-term benefits $'000	Post-employment benefits $'000	Other long-term benefits $'000	Termination benefits $'000	Share-based payments $'000	Total $'000
2012						
Management	**1,111**	**-**	**-**	**-**	**112**	**1,223**
Directors	**1,260**	**-**	**-**	**-**	**73**	**1,333**
	2,371	**-**	**-**	**-**	**185**	**2,556**
2011						
Management	1,851	-	-	-	185	2,036
Directors	1,185	-	-	-	120	1,305
	3,036	-	-	-	305	3,341

(d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, is set out below.

Key management personnel in their capacity as employees were allocated partly paid shares under the Employee Share Ownership Plan (ESOP) during the year. The terms and conditions for the shares allocated under the ESOP are set out in note 30.

Mr A R Radford is a director of and holds shares in Pan Pacific Petroleum NL.

Mr P G Foley is a partner in the firm of Minter Ellison Rudd Watts, Solicitors. Minter Ellison is a legal services provider to the Group on normal commercial terms and conditions.

A company associated with Mr S J Rawson provided consulting services to the Group during the reporting year to the value of $19,000 in relation to advice on the exploration and production industry. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Mr A T N Knight provided consulting services to the Group (prior to being appointed Chief Executive Officer) during the reporting period to the value of $23,500 in relation to executive management. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(e) Subsidiaries, Associates and Joint Ventures

Related parties of the Company include those entities identified in notes 14, 15, 16, 17 and 19 as subsidiaries and oil and gas interests.

All transactions and outstanding balances with these related parties are priced on an arm's length basis and none of the balances are secured, except for the outstanding balances from PRCL noted below.

During the year ended 30 June 2012 the Group had the following transactions with Pike River Coal Limited (In Receivership) (PRCL):

Convertible Bond

The Group received US$26.9 million (NZ$34.2 million) of principal and US$3.7 million (NZ$4.9 million) of interest on the US$28.9 million convertible bond facility. At 30 June 2012 the Group's best estimate of the fair value of the convertible bond facility was US$2.1 million ($2.5 million) (Refer to note 14).

Short-term Funding Arrangement

The Group advanced a further $6.8 million under the short-term secured funding arrangement and received $2.7 million in part repayment of outstanding unsecured debt. At 30 June 2012 the Group's best estimate of funds advanced under the short-term funding arrangement was $2.4 million (Refer to note 12).

Post balance date receipts

On 19 July 2012, the Group received $5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds ($2.5 million), the interest on convertible bonds ($0.1 million) and short-term funding arrangement ($2.4 million) (Refer to note 32).

Coal Contract Option with Pike River Coal Limited (In Receivership)

The coal contract option issued by PRCL expired on 31 March 2012. The fair value of the coal option contract in 2011 was nil.

There have been no other material transactions with related parties during the year.

30. Share-based payments

Participation in the Employee Share Ownership Plan (ESOP) is open to any employee (including a non executive Director) of the Company to whom an offer to participate is made by the Executive Appointments and Remuneration Committee. The Executive Appointments and Remuneration Committee, in its discretion, is responsible for determining which employees are to be offered the right to participate in the ESOP, and the number of partly paid shares that can be offered to each participating employee.

Under the ESOP partly paid shares are issued on the following terms:

1. Restriction periods

Each partly paid share is issued on terms that require an escrow period to pass before the holder can complete payment for, and thereafter transfer, the shares. This is usually 2 years. There is also a date 5 years after the offer date by which the issue price for the shares must be paid (this is called the "Final Date").

2. Issue price

The issue price of each partly paid share is set at the time the offer is made to the participant and is currently set at the lesser of:

- a 20% premium to the Average Market Price on the date of the offer (being the volume weighted average market price over the previous 20 business days); and
- the last sale price of the Company's ordinary shares on the Business Day prior to the Final Date (or such greater amount that represents 90% of the weighted average price of the Company's ordinary shares over the 20 Business Days prior to the Final Date).

The pricing model ensures that the participant does not receive a share at a discount to market price at the time the final payment is made but does provide some protection if the market price reduces after the original offer date.

Participants are required to pay $0.01 per share at the time of issue.

3. Rights

The rights attached to partly paid shares issued under the ESOP are the same as those attached to ordinary shares in the Company. The partly paid shares rank equally with the ordinary shares in the Company. However, the rights of each partly paid share to vote on a poll, and to dividends or other distributions of the Company, are a fraction equal to the proportion represented by the amount paid up in respect of the share as against the issue price set under the ESOP.

30. Share-based payments (continued)

Issued within Year Ended	Grant Date (Last in Year)	Final Date (Last in Year)	Average Exercise Price	Balance at start of Year 000s	Issued during the Year 000s	Sold during the Year 000s	Forfeited during the Year 000s	Balance at end of the Year 000s	Fully vested at end of Year 000s
30/06/2007	Apr-07	Apr-12	$1.29	505	-	-	(505)	-	-
30/06/2008	Feb-08	Nov-12	$1.57	1,460	-	-	(1,260)	200	200
30/06/2009	Mar-09	Oct-13	$1.26	350	-	-	(100)	250	250
30/06/2010	Jan-10	Nov-14	$1.64	1,850	-	-	-	1,850	1,850
30/06/2011	Jan-11	Nov-15	$1.65	1,305	-		(100)	1,205	230
30/06/2012	May-12	Apr-16	$0.96	-	4,050	-	(150)	3,900	-
				5,470	4,050	-	(2,115)	7,405	2,530
Weighted average exercise price				$1.49	$0.96	n/a	n/a	$1.27	$1.63

Share based payments are recognised based on the fair value of partly paid shares offered to employees at the issue date. The fair value at issue date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the partly paid shares, the vesting criteria, the non tradable nature of the partly paid shares, the share price at issue date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the issued partly paid share. The assessed fair value (for NZ IFRS 2 purposes) at issue date of partly paid share issued during the year ended 30 June 2012 was 7 cents to 10 cents per share (30 June 2011 was 7 cents to 25 cents per share).

The model inputs for partly paid shares issued during the year ended 30 June 2012, in addition to the issue price, issue date and final date as summarised in the above table, include:

(a) shares are paid to $0.01 on issue
(b) partly paid shares have a five year life and are exercisable after two years from the issue date
(c) market price on issue date: $0.70 - $0.76
(d) expected price volatility of the company's shares: 40%
(e) expected gross dividend per share: 9.1% - 9.9%
(f) risk free interest rate on the issue date: 2.54% - 2.76%

The expected price volatility is based on the historic volatility.

31. Commitments and contingent assets and liabilities

(a) Exploration expenditure commitments

In order to maintain the various permits in which the Group is involved the Group has ongoing operational expenditure as part of its normal operations. The actual costs will be dependent on a number of factors such as joint venture decisions including final scope and timing of operations.

(b) Operating leases and commitments

The Group leases premises, plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor.

	Group		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Within one year	**358**	339	**358**	339
Later than one year and not later than five years	**1,357**	1,355	**1,357**	1,355
Later than five years	**-**	308	**-**	308
	1,715	2,002	**1,715**	2,002

During the year ended 30 June 2012 $340,000 was recognised as an expense in the income statement in respect of operating leases (2011: $384,000).

Production commitments

The Company is committed to certain operational commitments in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the Floating Production Storage and Offtake (FPSO) vessel lease until 31 December 2015 with an option to extend to 31 December 2022 via one year renewal terms. The total committed by the Group to the FPSO charter and operating and maintenance contracts for the initial period to 31 December 2015 is currently estimated to be US$14.3 million.

(c) Contingent assets

Kupe Overriding Royalty Interest

The Group has an overriding royalty in relation to production from the Kupe field. As at balance date the Group was in discussions with the parties that have an obligation of paying the overriding royalty to agree the basis of the calculation. At balance date a reliable estimate of the economic inflow from the overriding royalties was not able to be determined.

(d) Contingent liabilities

Pike River Coal Limited (In Receivership) (PRCL)

NZOG wholly owned subsidiary NZOG 38483 Limited has provided two indemnities in favour of the receivers in connection with the receivership of PRCL. The first indemnity, given on appointment, essentially covers liability suffered by the receivers due to any defect in their appointment. The second indemnity, given at the time of handover of the PRCL mine by NZ Police to the receivers, indemnifies the receivers in respect of all costs and liability incurred in implementation of the Mine Stabilisation Plan dated 17 January 2010. Despite the above indemnities, the receivers have a priority entitlement to claim their costs and liabilities against the assets of PRCL and in fact, to date, all of their costs have been so satisfied.

Petroleum sales

The Group sells all LPG produced from the Kupe field to a single customer under a long-term sales agreement. In July 2011 the customer notified NZOG that the total sales revenue figures for both the 2010 and 2011 financial years would be adjusted for a specific transaction. NZOG did not believe the adjustment conformed with the terms of the agreement and exercised its right to audit the figures, following which two invoices amounting to $1.7 million were raised in respect of the particular periods and recognised in revenue. As at balance date, although paid in full, the customer is disputing the invoices.

Other contingent liabilities

As at 30 June 2012 the Company had no other contingent liabilities (2011:$Nil).

32. Events subsequent to balance date

PEP 38259 (Barque)

On 10 August 2012, after the balance date, NZOG announced that the consortium with interests in PEP 38259 (Barque) agreed to relinquish the permit to the Crown. The Group has fully impaired the exploration and evaluation asset in PEP 38259 (Barque) at balance date (Refer to note 17).

Pike River Coal Limited (In Receivership) (PRCL)

On 17 July 2012 the Receiver confirmed the completion of the sale of mine assets to Solid Energy and receipt of the balance of the base purchase price of $5.0 million. The sale agreement between the Receivers and Solid Energy provides for additional payments of up to $25.0 million by Solid Energy once mining recommences and certain production thresholds are reached. The Group has not recognised any amount in relation to these potential additional payments, which would become payable to the Group under the short-term funding arrangement (Refer to note 12).

On 19 July 2012, the Group received $5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds ($2.5 million), the interest on convertible bonds ($0.1 million) and short-term funding arrangement ($2.4 million) (Refer to notes 12, 14, 28(g) and 29).

The Group considers there is still considerable uncertainty as to the timing and quantum of any further return to NZOG from the Receivers of PRCL and has attributed no value to the remaining convertible bonds and short-term funding arrangements.

Auditor's Report

TO THE SHAREHOLDERS OF NEW ZEALAND OIL & GAS LIMITED

Report on the company and group financial statements

We have audited the accompanying financial statements of New Zealand Oil & Gas Limited (''the company'') and the group, comprising the company and its subsidiaries, on pages 7 to 43. The financial statements comprise the statements of financial position as at 30 June 2012, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the company and group in relation to taxation and general accounting services. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 7 to 43:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2012 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by New Zealand Oil & Gas Limited as far as appears from our examination of those records.

KPMG

22 August 2012
Wellington

Corporate Governance Statement

New Zealand Oil & Gas Limited (the "Company") is a limited liability company registered under the New Zealand Companies Act 1993. The Company is listed and its shares quoted on both the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX) under the code "NZO". This statement sets out the main corporate governance practices adopted by the Company. Unless otherwise stated, the Company's governance practices are considered to comply with the Corporate Governance guidelines issued by the NZX and ASX.

Board of Directors

The Board is responsible for the overall corporate governance of the Company including strategic direction, determination of policy, and the approval of significant contracts, capital and operating costs, financial arrangements and investments. In addition to statutory and constitutional requirements, the Board has a formal charter that sets out its functions and structure. The Board Charter is available at www.nzog.com/corporategovernance.

The number of Directors is specified in the constitution as a minimum of three and up to a maximum of seven. Mr Andrew Knight was appointed as Chief Executive and Managing Director on 7 December 2011 taking the place of Mr David Salisbury, who resigned from the Board from 22 December 2011. Mr Steve Rawson resigned from the Board from 27 January 2012, while Mr Rodger Finlay and Mr Mark Tume were appointed as Directors on 28 February 2012. The number of Directors has been seven since that date.

At least two Directors must be persons ordinarily resident in New Zealand. Each year one-third of the Directors, other than the Managing Director, must retire by rotation. If eligible, each retiring Director may offer themselves for re-election. Details of current Directors are set out in the following table:

Director	Appointed	Position	Expertise	Experience
Mr A R Radford ACA	June 1981	Chairman (Ind)	Resource company management	Founding director/CEO NZOG Ltd. 31 years managing petroleum and mining companies. Senior financial roles in steel making, melting and mining. Director, Pan Pacific Petroleum. Fellow, Australian Institute of Company Directors
Mr R J Finlay B.Com, CA	February 2012	(Ind)	Finance	Bachelor of Commerce, University of Otago. 30 years experience in financial services industry, 20 years of which specialising in global natural resource sectors. Current Directorships: Rural Equities Limited, Public Trust, Mundane Asset Management and Moeraki Limited. Member: Institute of Chartered Accountants, Institute of Directors
Mr P G Foley BCA, LLB	July 2000	(Ind)	Legal and finance	LLB and BCA, Victoria University. Partner, Minter Ellison. Extensive corporate/commercial experience: financial services, manufacturing and energy fields – with significant involvement with major petroleum exploration & production companies
Mr P W Griffiths BSc (Hons)	December 2009	(Ind)	Energy operations	BSc (Hons), Victoria University. 21 years with BP – 11 years in offshore oil & gas field operations in Australasia, Malaysia, UK. 10 years Managing Director of BP NZ. Directorships: (current) Civil Aviation Authority, Northland Port Corporation, Wanganui Gas Ltd, New Zealand Diving and Salvage Ltd, Greenstone Energy (previous) New Zealand Refining Company Ltd, Liquigas Ltd, Bitumix Ltd
Mr A T N Knight BMS (Hons) CA	January 2008	CEO & MD	Energy operations and finance	Chartered Accountant. Executive management roles: Vector, NGC. Senior roles in NZ & Australia: The Australian Gas Light Company, Fletcher Challenge Energy, Coopers & Lybrand
Mr D R Scoffham MA, MSc	June 2003	(Ind)	Worldwide oil & gas exploration	MA Physics, Christ Church, Oxford. MSc Geophysics, Imperial College, London. 40+ years experience in the upstream oil and gas industry; including Egypt, Gabon, Oman and Venezuela with Shell. Exploration management: Shell International, UK independent Enterprise Oil plc
Mr M Tume BBS, Dip Bkg Stud	February 2012	(Ind)	Finance	Bachelor of Business Studies, Diploma in Banking Studies (Treasury Management), Massey University. Hunter Fellowship recipient, Victoria University. 20+ years infrastructure and finance, including senior roles in investment banking, capital markets, asset and liability management, and risk control. Directorships: New Zealand Refining Company, Infratil, KiwiRail, and the Guardians of New Zealand Superannuation

INDEPENDENT DIRECTORS

A majority of the Board are independent Directors. The Board has determined in terms of the NZX and ASX Listing Rules that as at 30 June 2012, Mr R J Finlay, Mr P G Foley, Mr P W Griffiths, Mr A R Radford, Mr D R Scoffham and Mr M Tume are independent Directors. Mr A T N Knight is not an independent Director because of his executive role.

BOARD PROCEEDINGS

The Board meets on a formal scheduled monthly basis, and holds other meetings as required. The Chairman and the Managing Director establish the agenda for each Board meeting. As a regular item for each Board meeting, the Managing Director prepares an Operations Report which includes: A Health, Safety and Environment report, a summary of the Company's exploration, development and production operations, new venture projects and opportunities, together with key financial and other reports. Key strategic issues and opportunities are also presented to the Board by management as part of each meeting.

To ensure that independent judgement is achieved and maintained in respect of its decision making, the Board has adopted a number of processes which includes:

- Any Director may, with the prior consent of the Chairman of the Audit Committee (or in the case of the Chairman of the Audit Committee, the prior consent of the Chairman of the Board), obtain independent advice at the Company's expense where the Director considers it necessary to carry out their duties and responsibilities as a director. Such consent shall not unreasonably be withheld; and
- Directors must comply with the Directors' Interests Policy, which addresses disclosable interests, conflicts of interest, Director information obligations, Board review and determination obligations, and the rules for participation in Board deliberations in the event of a conflict of interest.

The Board is balanced in its composition with each current Director bringing a range of complementary skills and experience to the Company. The Board has a diverse range of skills, backgrounds, ages, and perspectives.

BOARD COMMITTEES

The Board has three formally constituted committees to provide specialist assistance with defined aspects of governance; the Audit Committee, the Executive Appointments and Remuneration Committee and the HSE and Operational Risk Committee. Each committee has a written charter setting out its roles and responsibilities, which is available from the Company's website at www.nzog.com/corporategovernance.

The Audit Committee is to be composed of three non-executive members of the Board with a majority of members being independent directors, the Chairman is to be independent and not the Chairman of the Board. The committee is required to contain at least one member with an accounting or financial background. The Board has determined that Mr Foley, Mr Finlay and Mr Tume each have the requisite financial background for this requirement and that Mr Foley, as Chairman of the Committee, is an independent director and not the Chairman of the Board.

As at 30 June 2012, the members of the Audit Committee were Mr Foley (Chairman), Mr Finlay and Mr Tume. The Committee is responsible to the Board for overseeing the financial and internal controls, financial reporting and risk and audit practices of the Company. The Committee also oversees and authorises any trading in securities by Directors, employees or contractors. There are restrictions on trading outlined in the Securities Trading Policy and in the Guidelines for Directors, the Securities Trading Policy and Guidelines for Employees and Dedicated Contractors. These restrictions include a prohibition on any transaction which has the effect of limiting the risk of participating in unvested entitlements. Meetings of the Audit Committee are held at least twice a year. The Chairman of the Board, the Chief Executive and other senior executives may be invited by the Committee to attend these meetings. Any director is entitled to attend a meeting of the Committee. The Committee can meet with the external auditors and senior management in separate sessions. As outlined in the Audit Committee Charter, there is an annual process to consider engagement of auditors, having regard to the auditor's independence and policies for rotation of partners.

The Executive Appointments and Remuneration Committee is responsible to the Board for approving the remuneration packages and performance criteria for the Chief Executive. Together with the Chief Executive it is responsible for reviewing appointees to the management team; allocations of partly-paid shares under the employee share ownership plan (ESOP); and recommending to the Board amendments to ESOP rules. The Committee composition is to be three non-executive Directors. The members of the Executive Appointments and Remuneration Committee as at 30 June 2012 were Mr Griffiths (Chairman), Mr Finlay and Mr Scoffham (all of whom are independent directors). The Committee is required to meet at least twice a year in June and in December and may invite the executive director or management to participate.

The Board does not have a separate nominations committee. As outlined in the Board Charter, the Board as a whole undertakes the responsibility for the nomination and appointment of Directors.

The Board's policy is to:

- comply with the NZSX Rules for inviting Director nominations from security holders on an annual basis; and
- undertake an annual review of Board membership to ensure its composition and the skills and experience of its members meet the Company's ongoing requirements.

During the financial year, the Board established the HSE and Operational Risk Committee. As at 30 June 2012, all of the Directors were members of the HSE and Operational Risk Committee, with Mr Griffiths as Chairman. The Committee is to meet at least four times a year and may call upon, and have access to, resources for additional information or advice including external consultants. The Committee's role is to advise and support the Board in meeting its responsibilities in relation to HSE and Operational Risk matters arising out of the activities and operations of the NZOG Group.

Meeting Attendance as at 30 June 2012:

Director	Board Meeting	Audit Committee	Executive Appointments & Remuneration Committee****	HSE and Operational Risk Committee
Mr A R Radford	13/13			3/3
Mr R Finlay* **	5/5		0/0	1/1
Mr P G Foley	12/13	2/2		3/3
Mr P W Griffiths	13/13	2/2	0/0	3/3
Mr A T N Knight	13/13	1/1	0/0	3/3
Mr S J Rawson*	6/7			1/1
Mr D J Salisbury**	6/6			1/1
Mr D R Scoffham	12/13	2/2	0/0	3/3
Mr M Tume***	5/5			0/1

* Steve Rawson resigned from the Board from 27 January 2012.

** David Salisbury resigned from the Board from 22 December 2011.

*** Rodger Finlay and Mark Tume were appointed to the Board on 28 February 2012.

**** The Committee met on 27 June 2011 and 3 July 2012.

BOARD PERFORMANCE AND EVALUATION

The Board has a policy of and is responsible for conducting an annual review of its performance, the performance of its committees, and the performance of individual Directors. The Board annually reviews its own operations and the operations of the committees by way of a questionnaire submitted to the Directors. Responses are collated and reviewed by the full Board. Individual Director performance is addressed by one on one review with the Chairman of the Board. Evaluations in accordance with these processes were undertaken during the reporting period, covering Board, Board committees and Director performance in the previous reporting period.

RESPONSIBILITIES OF THE BOARD

The Board is accountable for the performance of the Company. The specific responsibilities of the Board include:

- approving corporate strategy and performance objectives;
- establishing policies appropriate for the Company;
- oversight of the Company, including its control and accountability systems;
- approving major investments and monitoring the return of those investments;
- the overall risk management and control framework for the Company and ensuring appropriate risk management systems are established and applied;
- evaluating the performance of the Chief Executive;
- reviewing the performance of senior management;
- setting broad remuneration policy;
- reviewing implementation of strategy and ensuring appropriate resources are available;
- nominating and appointing new Directors to the Board;
- evaluating the performance of the Board, committees of the Board, and individual Directors;
- reviewing and ratifying systems of risk management, internal compliance and control, codes of conduct, and legal compliance;
- reviewing and ratifying HSE policies, the HSE Management System and monitoring its implementation and performance;
- approving and monitoring financial and other reporting;
- ensuring that the Company provides continuous disclosure of information such that shareholders and the investment community have available all information to enable them to make informed assessments of the Company's prospects;
- overall corporate governance of the consolidated entity;
- determining the key messages that NZOG wishes to convey to the market from time to time; and
- monitoring information commitments and continuous disclosure obligations.

COMPANY POLICIES

While the Board has overall and final responsibility for the business of the Company, it has delegated substantial responsibility for the conduct of the Company's business and policy implementation to the Managing Director and his management team.

Board approved policies and procedures are in place to set parameters for the delegated responsibilities, including:

- Health and Safety Policy
- Environment Policy
- Code of Business Conduct and Ethics
- Communications and Market Disclosure Policy
- Securities Trading Policies for Directors, Employees and Dedicated Contractors
- Directors' Interests Policy
- Whistleblower Policy
- Diversity Policy
- Delegated Authorities Manual
- Remuneration and Performance Appraisal Policy
- Oil Hedging Policy
- Funds Investment Policy
- Foreign Exchange: Transactions and Hedging Policy
- ETS Obligations and Carbon Liability: Transactions Policy
- Email and Internet Use Policy

These policies are reviewed on an annual basis. The Board may establish other policies and practices to ensure it fulfils its functions.

Health and Safety Policy
The Company is fully committed to the provision of a safe and healthy work environment. The Company aspires to a "no one gets hurt" plus "no incidents" standard under its Health and Safety Policy.

All employees, contractors and joint venturers engaged in activities under the Company's operational control are responsible for taking all practicable steps to avoid harm being caused to themselves or to others in the work place. They must report any potentially hazardous situations, maintain good housekeeping in all areas and comply with safe work practices and procedures.

The full Health and Safety Policy is available on the Company's website at www.nzog.com/corporategovernance.

Environment Policy
The Company values the environment and is committed to responsible management practices that minimise adverse environmental impacts arising from our activities, using soundly based science as the basis for all of our environmental decisions.

Responsibility for the application of this policy applies to all employees, contractors and joint venturers engaged in activities under the Company's operational control. The Company's managers are responsible for promoting the policy in non-operated joint ventures.

The full Environment Policy is available on the Company's website at www.nzog.com/corporategovernance.

Code of Business Conduct and Ethics
The Company's Code of Business Conduct and Ethics sets out the values and ethics expected of the Company's directors, management, employees and dedicated contractors. The Company strives to create a strong culture of honesty, integrity, loyalty, fairness, forthrightness and ethical behaviour.

Company representatives are required to:

- act with high standards of honesty, integrity, fairness, and equity in all aspects of their involvement with NZOG;
- comply fully with the content and spirit of all laws and regulations which govern the operations of NZOG, its business environment, and its employment practices;
- not knowingly participate in illegal or unethical activity;
- actively promote compliance with laws, rules, regulations, and NZOG's Code of Business Conduct and Ethics; and
- not do anything which would be likely to negatively affect NZOG's reputation.

The Code addresses in detail issues such as: conflicts of interest and corporate opportunities; protection and proper use of NZOG assets; confidential and proprietary information; intellectual property; competition and fair dealing; business entertainment and gifts; insider trading or tipping; and reporting of code violations.

The Code of Business Conduct and Ethics is available on the Company's website at www.nzog.com/corporategovernance.

Communications and Market Disclosure Policy
The Company is committed to maintaining a high standard of communication and the provision of timely, full and accurate information to shareholders and other stakeholders. The Company is committed to compliance at all times with its obligations, as an NZX and ASX listed company, to provide continuous disclosure to the market and strives to make those disclosures in a way that is clear, concise and effective. The Communications and Market Disclosure Policy's purpose is to reinforce the Company's commitment to the continuous disclosure obligations imposed by law and stock exchange rules. It describes the processes to ensure compliance and to outline the Company's general communications approach aimed at ensuring timely and accurate information is provided to shareholders, market participants and market observers.

The Board is to be provided with a monthly report by management which monitors and evaluates media reporting and investor sentiment relating to the Company and its management and directors. The Board is responsible for, by way of example, monitoring commitments and continuous disclosure obligations and initiating action as warranted to ensure reporting is fair and reasonable. The Audit Committee is responsible for monitoring compliance with corporate governance guidelines of the NZX and ASX. The Chief Executive is accountable for the release of information.

The Communications and Market Disclosure Policy is available on the Company's website at www.nzog.com/corporategovernance.

Shareholders and interested parties can subscribe via the website to receive the Company's market announcements by email. The Company issues shareholder, annual, interim and quarterly reports, which security holders can elect to receive in paper or electronic format. These documents are also posted on the Company's website.

Securities Trading Policies
The Company's Securities Trading Policies set out procedures as to when and how an employee, dedicated contractor or Director can deal in Company securities. These policies are consistent with the Securities Markets Act 1988 and its insider trading procedures, and comply with the NZX and ASX rules. The Board ensures that these policies are up to date and compliant at all times with any changes to the law and to NZX and ASX listing rules.

The Securities Trading Policies are available on the Company's website at www.nzog.com/corporategovernance.

Diversity Policy
Through its Diversity Policy the Company is committed to an inclusive workplace that embraces diversity. The Company values, respects and leverages the unique contributions of people with diverse backgrounds, experiences and perspectives. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background.

The Diversity Policy is available on the Company's website at www.nzog.com/corporategovernance.

The following table shows the number of men and women across the organisation as at 22 August 2012 (excluding contractors).

	Total	No. of Men	% Men	No. of Women	% Women
Board*	7	7	100%	0	0%
Senior Executives	3	3	100%	0	0%
Employees	17	9	53%	8	47%

*Includes the Managing Director/Chief Executive

Directors' Interests Policy
The Directors are required to recognise that the possibility of conflict of interest exists and are expected to declare potential conflict of interest situations to the Board and manage conflicts of interest in accordance with the Directors' Interests Policy, the Code of Business Conduct and Ethics, and the Company's Constitution. The Company maintains an Interests Register in compliance with the Companies Act 1993 which records particulars of certain transactions and matters involving Directors.

Whistleblower Policy
The Company has a Whistleblower Policy which provides a procedure for Company employees and contractors to raise concerns or make disclosures about what they observe happening at work. The purpose is to ensure that concerns raised are dealt with at an early stage and in an appropriate manner and that the person making the report is protected from any adverse consequences where it is made in good faith.

Delegated Authorities Manual
The Board has established formal limits of authority to provide clarity to the Managing Director and management so that they are in a position to carry out the business of the Company in an efficient and effective manner within the parameters of proper corporate governance. The Delegated Authorities Manual set limits to financial commitments and other decision making, and is monitored by the Board through the audit function.

Remuneration and Performance Appraisal Policy
The Company aims to attract, retain and motivate professional staff capable of achieving the goals of the Company. The remuneration policy provides a process that is undertaken to assess the competiveness of remuneration level.

At the 2008 NZOG Annual Meeting, shareholders approved a resolution that Director's fees be set at a maximum of $600,000 per annum, being the combined total for all non-executive Directors. There has been no increase in the fee level since 2008. Certain Directors are also participants in the NZOG Employee Share Ownership Plan as detailed in this Annual Report, but Directors otherwise do not receive any performance based remuneration.

The Executive Appointments and Remuneration Committee is responsible for receiving and making recommendations on remuneration policies for the Chief Executive and senior executives based on assessment of relevant market conditions and linking remuneration to the Company's financial and operational performance. Executive remuneration may comprise salary, short term performance bonuses and share participation in accordance with the NZOG Employee Share Ownership Plan (as approved by shareholders).

A performance evaluation of senior executives is performed annually by the Committee at the end of each financial year. Evaluations in accordance with this process were undertaken on both 27 June 2011 (in respect of the previous reporting period) and 3 July 2012 (in respect of the reporting period) but were not undertaken in the reporting period itself.

RECOGNISING AND MANAGING RISK

The Company has implemented a new risk management system framework which outlines NZOG's approach to risk management. It provides a framework on how to apply consistent and comprehensive risk management practices across all functional areas of the Company's business.

Risk assurance is provided through a prioritised programme of audits of primary risk controls. A central Company risk register, which considers the risks, reviews the controls, assigns ownership of a risk and tracks treatment plans, is maintained.

The Board's accountabilities include overseeing the effectiveness of the system, monitoring compliance and approving polices and systems for the ongoing identification and management of risks. The Board's responsibilities include reviewing and approving policies required to implement the system, approving the Company's risk capacity and appetite, reviewing material risks and reviewing the risk register. The Board allocates oversight of risk management in relation to health safety and environment and company operations to the HSE and Operational Risk Committee and oversight in relation to accounting standards and principles, financial statement compliance and reliability and the audit process to the Audit Committee.

Responsibility for identifying, documenting and managing risks and opportunities is delegated to the appropriate level of management. The Chief Executive is responsible for such things as integrating risk management into core business processes, managing the Company's corporate strategic risks and opportunities and regularly reviewing NZOG's risk profile. The Chief Financial Officer has responsibility to the Board for design, development and improvement of the risk management framework system and maintains the Company's risk register.

Risks are formally reviewed by risk owners. Management regularly reviews the risk register and results of audit programmes relating to risk controls.

Management has reported to the Board confirming the effectiveness of the Company's management of its material business risks.

The Risk Management System Framework is available on the Company's website at www.nzog.com/corporategovernance.

CORPORATE GOVERNANCE BEST PRACTICE CODES

The Company's compliance with Corporate Governance Best Practice is actively monitored. This includes assessing compliance with the NZX Listing Rules and Corporate Governance Best Practice Code (Appendix 16) (NZX Code); and the ASX Listing Rules and ASX Corporate Governance Council Corporate Governance Principles and Recommendations (ASX Recommendations). The Company is compliant with these rules and guidelines except as otherwise noted below.

Directors have not taken part of their remuneration by way of equity. However certain Directors are participants in the NZOG Employee Share Ownership Plan as detailed in this Annual Report.

Both the NZX Code and the ASX Recommendations recommend the establishment of a nominations committee (code 3.11, Recommendation 2.4). The Board has not established a separate nominations committee. The Board as a whole undertakes responsibility for the recruitment and appointment of Directors.

The ASX Recommendations includes a recommendation that companies should establish a policy concerning diversity, which should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them (Recommendation 3.2). The Company's Diversity Policy does not require the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. The current policy requires the Company to include, in the Annual Report, any measurable objectives set by the Board and progress against the objectives. The Board has not yet set any objectives, however the Company will be revising its diversity policy to make the setting of measurable objectives by the Board a requirement and measurable objectives will be set.

The NZX Code recommends that non-Audit Committee members only attend Audit Committee meetings at the invitation of the Committee (code 3.4). The Company has a policy, contained in the Board Charter and the Audit Committee Charter, that all Directors are entitled to attend a meeting of the Audit Committee if that Director so wishes.

The ASX Recommendations include a recommendation that companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy (Recommendation 6.1). The Company has established the Communications and Market Disclosure Policy, which promotes effective communication. It is summarised above and is available on the website. The Company encourages shareholder participation by live webcasting shareholder meetings, inviting shareholder questions, and by holding shareholder briefings in Auckland and Christchurch. The Company uses its website to complement the official release of material information to the market which enables broader access to Company information by shareholders. It also provides a tool for shareholders to communicate with the Company. All material announcements are contained on the website, Company presentations are available as webcasts on the website and full texts of notices of meetings are posted on the website, together with issued shareholder, annual, interim and quarterly reports.

The ASX Recommendations provide that the Board should disclose whether it has received assurance from the Chief Executive and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act (Australia) is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks (Recommendation 7.3). The Company's CEO and CFO do not provide that declaration because the Corporations Act (Australia) does not apply and so it does not have to provide the declaration in accordance with section 295A of that Act. However, as part of the financial statement preparation process undertaken every six months, the Company's management provides to the Board a management representation letter signed by management including the CEO and CFO. It includes key representations that in essence cover the same topics as the section 295A Corporations Act declarations.

The ASX Recommendations provide that a statement should be made as to whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed (guide to reporting on Recommendation 1). Evaluations in accordance with the disclosed process were undertaken on both 27 June 2011 (in respect of the previous reporting period) and 3 July 2012 (in respect of the reporting period) but were not undertaken in the reporting period itself. The reason for this was schedule changes for the Board and committees' meeting dates.

Shareholder Information

STOCK EXCHANGE LISTING

The Company's securities are listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX).

SECURITIES ON ISSUE

As at 22 August 2012 New Zealand Oil & Gas Ltd had the following securities:

Listed Ordinary Shares:
392,787,795 shares
14,940 holders

Unlisted Partly Paid Shares:
9,520,000 shares
32 holders

TOP 20 SHAREHOLDERS

Top 20 registered holders of Listed Ordinary Shares as at 22 August 2012:

	Name	Shares Held	% of Issued Capital
1	JPMorgan Chase Bank NA	40,366,191	10.28%
2	Accident Compensation Corporation	20,032,388	5.10%
3	National Nominees New Zealand Ltd	14,299,501	3.64%
4	Citibank Nominees (New Zealand) Ltd	12,215,148	3.11%
5	Resources Trust Ltd	10,472,932	2.67%
6	BNP Paribas Nominees (NZ) Ltd	10,385,940	2.64%
7	HSBC Nominees (New Zealand) Ltd A/C State Street	8,077,012	2.06%
8	AMP Investments Strategic Equity Growth Fund	7,203,683	1.83%
9	New Zealand Superannuation Fund Nominees Ltd	5,714,654	1.45%
10	Sik-On Chow	5,500,000	1.40%
11	Resource Nominees Ltd	4,595,281	1.17%
12	Custodial Services Ltd <A/C 3>	4,020,547	1.02%
13	Riuo Hauraki Ltd	3,758,793	0.96%
14	NZGT Nominees Ltd	3,431,010	0.87%
15	FNZ Custodians Ltd	3,029,590	0.77%
16	Leveraged Equities Finance Ltd	2,856,277	0.73%
17	ASB Nominees Ltd <414354 Ml	2,510,000	0.64%
18	NZPT Custodians (Grosvenor) Ltd	2,389,718	0.61%
19	New Zealand Depository Nominee Ltd <A/C 1> Cash Account	2,175,006	0.55%
20	Tea Custodians Ltd	2,096,601	0.53%

In the above table the holdings of New Zealand Central Securities Depository Limited have been reallocated to its applicable members.

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder Notices are received pursuant to the Securities Markets Act 1988. Shareholders are required to disclose their holding to the issuer and the issuer's registered exchanges when:

- they begin to have a substantial holding (5% or more of the listed voting securities);
- subsequent movements of 1% or more in a substantial holding from prior notification;
- any change is made in the nature of any relevant interest in the substantial holding; and
- they cease to have a substantial holding.

The following Substantial Shareholder Notices were received since the date of the last Annual Report, in respect of holdings in Ordinary Share of New Zealand Oil & Gas Limited:

Date	Shareholder	Shares Held	% of Issued Capital
18 October 2011	Accident Compensation Corporation (ACC)	33,644,675	8.58%
9 May 2012	Accident Compensation Corporation (ACC)	28,362,604	7.22%
9 May 2012	Blair Tallot [1]	28,376,348	7.22%
24 May 2012	Accident Compensation Corporation (ACC)	23,862,604	6.07%
24 May 2012	Blair Tallot [2]	23,876,348	6.08%
6 June 2012	Utilico Investments Limited	19,890,139	5.06%
2 July 2012	Utilico Investments Limited	25,510,167	6.50%

1. Blair Tallot held 13,744 shares (0.004%) as beneficial owner, while also managing the holdings of Accident Compensation Corporation (ACC) of 28,362,604.
2. Blair Tallot held 13,744 shares (0.0035%) as beneficial owner, while also managing the holdings of Accident Compensation Corporation (ACC) of 23,862,604.

As at 22 August 2012 there were no other substantial shareholders with 5% or more of the Ordinary Shares (JP Morgan Chase Bank NA is above 5% but holds the shares on behalf of a number of beneficial shareholders).

DISTRIBUTION OF SECURITY HOLDERS

As at 22 August 2012:

Number of Shares	Holders of Listed Ordinary Shares	Holders of Unlisted Partly Paid Shares
1 - 99	131	
100 - 199	58	
200 - 499	241	
500 - 999	1,834	
1,000 - 1,999	2,682	
2,000 - 4,999	3,387	
5,000 - 9,999	2,398	
10,000 - 49,999	3,392	2
50,000 - 99,999	416	6
100,000 - 499,999	333	16
500,000 - 999,999	36	1
1,000,000 - 99,999,999	32	2
Total	14,940	27

On 22 August 2012 there were 430 holders with non-marketable parcels of shares as determined by the NZX (under 500 shares), and 1,921 holders as determined by the ASX (under A$500 in value).

VOTING RIGHTS

Article 16 of the Company's Constitution states that a shareholder may exercise the right to vote at a meeting of shareholders either in person or through a representative. Where voting is by show of hands or by voice every shareholder present in person or by representative has one vote. In a poll every shareholder present in person or by representative has one vote for each fully paid share. Unless the Board determines otherwise, shareholders may not exercise the right to vote at a meeting by casting postal votes.

TRADING STATISTICS

For the 12 months ended 30 June 2012	High	Low	Volume
NZX (Trading Code NZO)	NZ$0.86 on 11/7/11	NZ$0.61 on 9/8/11	119,767,830
ASX (Trading Code NZO)	A$0.67 on 20/10/11	A$0.48 on 22/7/11	7,463,769

SHARE BUYBACK

A share buy-back scheme was announced by NZOG on 1 November 2011 with shares able to be acquired from 7 November 2011. This involved a broker purchasing shares, within prescribed limits, on NZOG's behalf through the NZX market. The shares acquired were immediately cancelled. The share buy-back may continue up until 31 October 2012, unless a maximum of 10,000,000 shares are acquired beforehand.

The total number of shares acquired and cancelled under the share buyback was 2,887,001; at an average price of NZ0.72 cents per share and a total cost (including brokerage) of NZ$2,075,938.

NZOG did not make any direct purchases from shareholders and the identity of the seller or sellers of the securities is not known to NZOG.

DIVIDEND PAYMENTS AND REINVESTMENT PLAN

Dividend Payments
The Company has declared a fully imputed final dividend for the year of 6 cents per share payable on 28 September 2012. The record date is 14 September 2012.

Dividend Reinvestment Plan
The Company's Dividend Reinvestment Plan (Plan) remains in operation for shareholders resident in New Zealand and Australia. These shareholders can choose to invest all or part of their future dividends in taking up additional shares, instead of receiving cash. New shares issued under the Plan continue to be offered at a 2.5% discount to the weighted average sale price for shares sold on each of the first five business days immediately following the dividend record date on 14 September 2012. Shareholders who wish to participate in the Plan or amend previous participation instructions may do so by completing a Participation Notice. Full Terms and Conditions of the Plan and the Participation Notice are available on the Company's website at www.nzog.com/drp.

Direct Crediting of Dividends Payments
To minimise the risk of fraud and misplacement of dividend cheques shareholders are strongly recommended to have all payments made by way of direct credit to their nominated New Zealand or Australian bank account. This can be done by simply giving the share registry written notice.

Share Registries
Details of the company's share registries are given in the Corporate Directory on the inside back cover of this report. Shareholders with enquiries about share transactions, changes of address or dividend payments should contact the share registry in the country in which their shares are registered.

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors for services in all capacities during the year ended 30 June 2012 was:

Mr A R Radford	$154,500
Mr R J Finlay *	$25,833
Mr P G Foley	$72,000
Mr P W Griffiths	$67,042
Mr A T N Knight **	$415,520
Mr S J Rawson ***	$52,440
Mr D J Salisbury ****	$461,113
Mr D R Scoffham	$62,000
Mr M Tume *	$25,833

* Appointed 28 February 2012
** Managing Director from 7 December 2011 – includes remuneration received as Chief Executive and consultancy fees paid to an entity of which Mr Knight was a shareholder.
*** Resigned from 27 January 2012
**** Resigned from 22 December 2011 – includes remuneration received as Chief Executive

DIRECTORS' SECURITIES INTERESTS

The interests of Directors in securities of the Company at 30 June 2012 were:

	Direct Interest	Indirect Interest
Mr P G Foley	80,270 ordinary shares	150,000 partly paid shares
Mr P W Griffiths	10,500 ordinary shares	150,000 partly paid shares
Mr A T N Knight	37,000 ordinary shares	3,150,000 partly paid shares
Mr A R Radford	998,768 ordinary shares	2,334,000 ordinary shares
Mr D R Scoffham *	125,000 ordinary shares	150,000 partly paid shares and 81,347 ordinary shares
Mr R J Finlay		800,000 ordinary shares

* Direct interest in 15,000 ordinary shares held jointly with spouse and indirect interest in 21,347 ordinary shares held on behalf of grandchildren.

Changes to Directors' Securities Interests during the financial year were: Mr A T N Knight acquired a direct interest in 25,000 ordinary shares and an indirect interest in 3,000,000 partly paid ordinary shares, Mr Foley acquired a direct interest in 2,220 ordinary shares; and Mr R J Finlay acquired an indirect interest in 500,000 ordinary shares subsequent to being appointed a director on 28 February 2012.

DIRECTORS' INTERESTS IN TRANSACTIONS

Directors' interests recorded in the Interests Register of the Company as at 30 June 2012 are detailed below. Notices given or adjusted during the financial year ended 30 June 2012 are marked with an asterisk (*). Each such Director will be regarded as interested in all transactions between the Company and the disclosed entity.

Mr P G Foley	
Minter Ellison Rudd Watts Lawyers	Partner
Pike River Coal Ltd (In Receivership)	Legal Advisor and shareholder
Liquigas Ltd	Legal Advisor
Shell (Petroleum Mining) Ltd	Legal Advisor
Vector Ltd	Legal Advisor
National Provident Fund	Member of Board of Trustees
Heidrick & Struggles Limited*	Spouse is a Principal of the company
Mr P W Griffiths	
Civil Aviation Authority	Deputy Chairman
Northland Port Corporation	Director
Wanganui Gas Limited	Director
NZ Diving & Salvage Limited	Director and shareholder
Greenstone Energy Limited	Director
Pike River Coal Ltd (In Receivership)	Shareholder
Mr A T N Knight	
Powerco Limited	Director
Watchman Capital	Shareholder
Vector Ltd	Shareholder
Mr A R Radford	
Pan Pacific Petroleum NL (and subsidiaries)	Director and shareholder
Mr D R Scoffham	
Pan Pacific Petroleum NL	Shareholder
Pike River Coal Ltd (In Receivership)	Shareholder
Mark Tume	
Yeo Family Trustee Limited*	Director
Long Board Limited*	Director
Welltest Holdings Limited*	Director
The Guardians of NZ Superfund*	Member of Board of Trustees
New Zealand Refining Company Ltd*	Director
NZ Railways Corporation Limited*	Director
Lumo Energy Australia Pty Limited*	Director
Infratil Energy Australia Pty Limited*	Director
Koau Capital Partners Ltd*	Director
Maori Trustee Advisory Board*	Member of the Board of Trustees
Infratil	Shareholder
Rodger Finlay	
Aurora Oil & Gas Limited*	Shareholder
Mundane Asset Management*	Director (Chairman)
Moeraki Limited*	Director

EMPLOYEES REMUNERATION

During the year ended 30 June 2012, 13 employees (excluding the Chief Executive) received individual remuneration over $100,000.

$110,001 - $120,000	1
$120,001 - $130,000	1
$130,001 - $140,000	2
$140,001 - $150,000	1
$190,001 - $200,000	1
$220,001 - $230,000	1
$230,001 - $240,000	1
$290,001 - $300,000	1
$330,001 - $340,000	1
$350,001 - $360,000	1
$360,000 - $370,000	1
$430,001 - $440,000	1

OFFICERS' SECURITIES INTERESTS

The interests of the current Company Officers (excluding the Chief Executive) in securities of the Company at 30 June 2012 were:

Mac Beggs in respect of 550,000 unlisted partly paid shares.

Ralph Noldan in respect of 20,583 ordinary shares (4,000 of which indirectly) and 450,000 unlisted partly paid shares.

John Bay in respect of 35,000 ordinary shares and 250,000 unlisted partly paid shares.

DONATIONS

In December 2011, the Company made a donation of $879 to Wellington Free Ambulance.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company and its subsidiaries have arranged policies of Directors' and Officers' liability insurance, which, together with a deed of indemnity, seek to ensure to the extent permitted by law that Directors and Officers will incur no monetary loss as a result of actions legitimately taken by them as Directors and Officers.

NZOG GROUP

Within this Annual Report reference to NZOG, New Zealand Oil & Gas Ltd and the Company are to be read as inclusive of the subsidiary companies within the consolidated group.

CURRENCY

Within this Annual Report all amounts are New Zealand dollars unless otherwise specified.

Corporate Directory

DIRECTORS

Tony Radford
Chairman

Rodger Finlay *

Paul Foley

Peter Griffiths

Andrew Knight
Managing Director **

Steve Rawson ***

David Salisbury ****

David Scoffham

Mark Tume *

* Appointed 28 February 2012
** Managing Director from 7 December 2011
*** Resigned 27 January 2011
**** Resigned 22 December 2011

MANAGEMENT

Andrew Knight
Chief Executive & Managing Director

John Bay
Vice President and General Manager Commercial and Operations

Mac Beggs
Vice President and General Manager Exploration

Ralph Noldan
General Counsel and Company Secretary

Andre Gaylard
Chief Financial Officer

John Pagani
External Relations Manager

REGISTERED AND HEAD OFFICE

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New Zealand

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Email: enquiries@nzog.com

Website: www.nzog.com

AUDITORS

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New Zealand

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New Zealand

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Takapuna
Auckland 0622

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Abbotsford VIC 3067

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Facsimile: + 61 3 9473 2500

Managing Your Shareholding Online

To change your address, update your payment instructions and to view your registered details including transactions, please visit www.investorcentre.com/nz

General enquiries can be directed to: enquiry@computershare.co.nz

Please assist our registry by quoting your CSN or shareholder number when making enquiries.

www.nzog.com